

A Country Commercial Guide for U.S. Companies



Doing Business In Saudi Arabia: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Saudi Arabia

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Market Overview

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- The Saudi economy performed quite well in 2004, with record oil profits and non-oil private sector growth fueling a 5.3 percent real growth in GDP.
- The Saudi budget also registered its third banner year with a surplus of \$26.1 billion in 2004. Close to half of this surplus (\$10.9 billion) was used for new projects and about half to reduce government debt, which now stands at 66 percent of GDP, down from 119 percent in 1999.
- In 2004, GDP per capita rose to more than \$10,000 for the first time in 20 years.
- In 2003, Saudi Arabia imported \$36.9 billion worth of merchandise. American exporters maintained their dominant position at 15 percent, followed by Japanese companies at 10 percent, and German with a nine percent share of total Saudi imports.
- In 2003, Saudi Arabia exports were valued at \$93.2 billion with the U.S. importing more than 18 percent of total Saudi exports, followed by Japan at 14 percent, and South Korea at nine percent.
- The U.S. Embassy continues to receive reports that suggest terrorist action against U.S. interests in Saudi Arabia remains a possibility.

Market Challenges

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- Saudi business and laws still favor Saudi citizens. Only Saudi nationals are permitted to engage in trading activities and only Saudis are permitted to register as commercial agents. Restrictions on individual professions also are in force, such as who can practice law, medicine, accounting and financial services, and other similar professions.
- Commercial Disputes Settlements: The enforcement of foreign arbitration awards has yet to be upheld in practice. Government agencies are not allowed to agree to international arbitration without approval from the Council of Ministers, which is rarely granted.
- Business Visas: All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia.
- Delayed Payments: Although the Saudi Government is keen to resolve any payment disputes and has reduced its arrearages for the last couple years. Nonetheless, the problem persists, and U.S. companies should check with the U.S. Embassy or Consulates for information on the current arrearage situation.
- Intellectual Property Protection: Saudi Arabia is revising its intellectual property laws to bring them into conformity with the TRIPS Agreement as part of its efforts to join the WTO. An updated Trademark Law took effect at the end of 2002, and an updated Copyright Law took effect in March 2004. Though

intellectual property protection has steadily increased in the Kingdom, piracy remains a problem.

- Counterfeiting: Although anti-counterfeiting laws exist, manufacturers of consumer products and automobile spare parts are particularly concerned about the widespread availability of counterfeit products in Saudi Arabia.
- Arab League Boycott: The Gulf Cooperation Council (Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates) announced in the fall of 1994 that its members would no longer enforce the secondary and tertiary aspects of the Arab League Boycott. The primary boycott against Israeli companies and products still applies.
- Government Procurement: Saudi Arabia's government contracts on project implementation and procurement strongly favor Saudi and GCC nationals.
- Banking: Although the Saudi central bank, SAMA, has granted licenses to a number of foreign financial institutions to open branches in Saudi Arabia, however, these banks will be only allowed to do investment banking and brokerage services, if applicable. For the past 20 years, the number of banks operating in Saudi Arabia has remained stagnant at 11 commercial banks.
- Shipping: Saudi Arabia gives preferences to national carriers for up to 40 percent of government-related cargoes with two companies taking advantage of this situation.
- Standards and labeling: A new ICCP mandates that a Certificate of Conformity must accompany all consumer goods exported to Saudi Arabia. Labeling and marking requirements are compulsory for any products exported to Saudi Arabia.

Market Opportunities

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- The current value of nine on-going projects at [Saudi Aramco](#), the national oil company, in upstream gas, upstream oil, downstream oil and gas and pipelines is \$8.3 billion dollars.
- A number of security projects are under consideration: a) to provide ID cards for approximately 3 million pilgrims annually; b) a Saudi Arabian national ID card is now being introduced with Phase III (the issuance of some 300,000 ID cards) scheduled for 2005; c) possible fingerprinting of all visitors arriving in the country; d) the Traffic Department at MOI plans to install a vehicle identification system with cameras; e) high-tech border security is being implemented; f) port security is being upgraded in line with International Maritime Organization (IMO) regulations; and g) safety and security equipment at airports is under review.
- A third GSM license will be issued to a new operator by the end of 2005. Furthermore, two licenses will be issued to qualified firms to provide data services and finally, the VOIP service will also be launched in early 2006.
- Appropriations in the new government budget entail building 420 primary health care centers, 23 hospitals, and expanding and upgrading existing healthcare facilities.
- The Water & Electricity Company (WEC) plans to set up the first group of four IWPP projects with an investment potential of \$6.12 billion. In addition, the Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) will be also pre-qualifying companies to undertake the operation, management, expansion and construction of seawater cooling systems, water desalination plants,

sanitary and industrial wastewater systems and electric power systems for the industrial cities of Jubail and Yanbu.

- A number of railway projects are being considered, especially along the northern border up to the industrial city of Jubail in the Eastern Province. Moreover, the Saudi government is looking into a road toll system to be imposed on 16 expressways, and a passenger shipping line will soon start operating between Dammam and Dubai.
- The [Saline Water Conversion Corporation](#) (SWCC) plans on establishing 20 new desalination plants on the country's eastern and western coasts and increasing the pipeline network to 4,000 km at a total investment of \$14.4 billion.

Market Entry Strategy

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- U.S. exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing for resale and direct commercial marketing within the Kingdom to Saudi nationals and wholly Saudi-owned companies. Depending on the end-user, an American company is encouraged to appoint a local agent/distributor to be able to promote and sell its products/services in Saudi Arabia. Even for government projects and although a service agent is no more required, it will be wise for the American company to locate a well entrenched and financially sound partner to pursue future government contracts.
- Although the Saudi Government encourages foreign investment, a U.S. firm that is evaluating this venue is strongly encouraged to seek in-country legal counsel on the best approach to deal with this option. The Commercial Service can assist by providing a list of local attorneys, which may be associated with U.S. law firms.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

[Saudi Arabia \(09/04\)](#)

The [U.S. Commercial Service in Saudi Arabia](#) is part of a global network of trade specialists in more than 100 cities in the United States and 80 countries worldwide, including an office in [Riyadh](#), [Jeddah](#) and in [Dhahran](#). Our mission is dedicated to strengthen commercial ties between Saudi Arabia and the United States by offering comprehensive, trade promotion assistance through a variety of programs and services to both American and Saudi companies.

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Using an Agent or Distributor

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U.S. exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing for resale and direct commercial marketing within the Kingdom to Saudi nationals and wholly Saudi-owned companies. Nationals from the [Gulf Cooperation Council](#) (GCC) countries, which include Saudi Arabia, Kuwait, Qatar, Oman, Bahrain, and the UAE, are also allowed to engage in trading and retail activities, including real estate. Agent/distributor relations are governed by the Commercial Agency Regulations of the Kingdom of Saudi Arabia that is administered by the Ministry of Commerce and Industry. These regulations are currently being revised.

In July 2001, the Council of Ministers cancelled a decree compelling foreign companies with government contracts to appoint a Saudi service agent. The old decree also specified a maximum commission of five percent. Some government contracts, however, will require a minimum requirement to subcontract to Saudi companies. In addition, government contracts will include a clause to develop training programs for Saudis.

Terminating an agent/distributor agreement can be difficult even though Saudi policy has changed to permit registration of a new agreement over the objections of the existing distributor. Time is better spent in making the proper initial selection than in attempting to end an unsatisfactory relationship at a later date. The U.S. Commercial Service, through the U.S. Export Assistance Centers and overseas posts, offers a variety of services to assist U.S. firms in selecting a reputable and qualified representative. Our [International Partner Search](#) will provide you with pertinent information on up to six pre-qualified potential representatives in a particular region of

Saudi Arabia. This customized search will put you in touch with firms that have expressed an interest in representing your product or service.

Another service is the [Gold Key Service](#), which is a personalized and targeted matchmaking service that combines orientation briefing, a profile of each Saudi prospect, interpreter services for meetings, a local Commercial Specialist to escort you to your meetings, and assistance in developing follow-up strategies.

Saudi law is based on the Islamic Shari'a and differs considerably from U.S. practice. U.S. firms contemplating an agency or a distribution agreement are advised to consult with a local attorney.

Establishing an Office

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The procedures to follow in establishing an office in Saudi Arabia differ according to the type of business undertaken. The most common and direct method of establishing an office is simply to appoint an agent/distributor, who can set up the office under its own commercial registry. The agent/distributor agreement should be registered with the Ministry of Commerce & Industry as previously described. The Commercial Agency regulations govern the agent/distributor agreement.

A second method might be to establish a technical and scientific service office, which also requires a license from the Ministry of Commerce and Industry. This approach preserves the independence and identity of the foreign company's local office as a separate entity from the Saudi agent/distributor. Foreign companies represented in Saudi Arabia may apply for permission to open a technical and scientific service office. Technical and scientific service offices are not allowed to engage directly or indirectly in commercial activities, but they may provide technical and advisory support to their Saudi agent/distributor as well as conduct market surveys and product research.

A third method is to establish a branch office. Under the new Foreign Investment Act, the requirements and procedures for establishing a foreign branch office have been eased. Foreign companies may set up a wholly foreign-owned branch office to engage in any government contract or private sector work depending on the office license and scope of activities. Foreign companies that are contracted to do work for the Saudi Government must obtain a temporary commercial registration, and then proceed to establish a branch office. Under certain circumstances, a foreign company may apply for a permanent registration if it wishes to engage in permanent business in Saudi Arabia.

A fourth method is to establish a representative (or liaison) office. This is normally granted only for companies that have multiple contracts with the Government and require a local office to oversee contract implementation. Representative offices are not allowed to engage in direct or indirect commercial activity in the Kingdom. Establishment requires a license from the Ministry of Commerce and Industry.

A fifth method is for a foreign company to establish a joint venture with a Saudi firm. Usually, the Saudi business community refers to limited liability partnerships as joint ventures.

These partnerships must be also registered with the Ministry of Commerce and Industry and the partners' liabilities are limited to the extent of their investment in the partnership.

Finally, foreign companies can get a license from the [Saudi Arabian General Investment Authority](#) (SAGIA) to set up an industrial or a non-industrial project in Saudi Arabia. SAGIA will license projects under the new Foreign Investment Act, which allows for 100 percent foreign ownership. In addition, foreign investors can open a sales/administration/marketing office to complement their industrial or non-industrial project. SAGIA has a broad mandate on all matters relating to foreign investments in industry, services, agriculture, and contracting.

Costs associated with setting up a business in Saudi Arabia have remained relatively unchanged from previous years. A general guide to the current costs of office rental is priced based on location and quality of the building and amenities. It is important to note that the law forbids females in Saudi Arabia, regardless of nationality, to drive motor vehicles. Money should be included in an office budget to provide sufficient cars and drivers for transportation of female family members and staff.

Franchising

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Franchising is a popular and growing approach for local firms to establish additional consumer-oriented businesses in Saudi Arabia. Although the franchise market is small relative to that in the United States, it is rapidly expanding in several business sectors. The growth in this sector is based on Saudis' desire to own their own business and a widely held appreciation for Western methods of conducting business. Competition is particularly fierce between U.S. franchisers and local and third country competitors in the following sectors: car rental agencies, laundry and dry cleaning services, fast food, and auto maintenance

Franchising opportunities exist in the following business categories: apparel, laundry and dry cleaning services, automotive parts and servicing, restaurants, mail and package services, printing, and convenience stores.

The Commercial Agency Law applies to any franchise agreement, and the Ministry of Commerce and Industry is the government entity that licenses and approves such agreements. Under the new Foreign Investment Regulations, a foreign franchise owner may apply for a license to establish a company with a 49 percent foreign ownership for the distribution of its franchised product(s) that are locally produced.

Direct Marketing

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Direct marketing is not widely used in Saudi Arabia. Personal relations between vendors and customers play a more important role than in the West. Furthermore, many forms of direct marketing practiced in the United States are unacceptable due to Islamic precepts regarding gender segregation and privacy in the home. Limitations in the Saudi postal system are also a constraint: no home delivery or postal insurance is available yet; however, as part of the privatization of the Telecommunications and Information Technology Ministry, mail and parcel home deliveries will be forthcoming.

Direct marketing has been conducted on a very limited basis using unsolicited mail campaigns and fax, catalog sales (with local pick-up or delivery arranged), and commercials on satellite television providing consumers in many nations (including Saudi Arabia) with a local telephone number to arrange delivery. Extensive consumer surveys are being undertaken, mainly on behalf of multi-national manufacturers and particularly in the consumer goods sector.

Joint Ventures/Licensing

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Under the Foreign Investment Act, a foreign investor may either chose to set up his/her own project or in association with a local investor. If the latter option is chosen, foreign investors may structure their enterprise as a limited liability company, which is the most commonly used approach. By law, limited liability companies must not have less than two nor more than fifty shareholders and must be capitalized with at least SR. 1,000,000 (\$267,000). Joint venture companies are a variety of the limited liability company that can be held either privately or publicly. The Ministry of Commerce and Industry approves formation of all joint ventures.

If the foreign investor chooses to set up his/her own business, the amount invested should not be less than \$533,000 for agricultural projects, \$1 million for industrial projects, and \$533,000 for other projects. The Investors Service Center (ISC) at the Saudi General Investment Authority (SAGIA) oversees all matters related to a foreign investor licensing and registration process. The ISC is intended as a one-stop shop that will assist foreign investors and minimize lengthy procedures. Another very significant change that accompanied the new Foreign Investment Act is the reduction in the corporate tax rate for foreign companies with profits in excess of \$26,000 a year. It lowers the maximum rate from 45 to 20 percent and allows companies to carry forward corporate losses for an unspecified number of years.

Depending on the nature of the foreign investment, the [Saudi Arabian Standards Organization](#) (SASO) may be involved. SASO is the Saudi authority for establishing product standards for imports and locally manufactured goods.

The [Saudi Industrial Development Fund](#) (SIDF) may be engaged to provide up to 50 percent financing for approved industrial projects, and payback period could be up to 15 years. Market intelligence also is available through the SIDF for prospective investors.

Other Saudi Arabian Government entities that may be involved in the process include: Ministry of Foreign Affairs (visas), the Ministry of Interior (residence permits and industrial safety and security approvals), the Royal Commission for Jubail and Yanbu (if the project is placed at the Saudi industrial cities of Jubail or Yanbu), the General Organization for Social Insurance (social insurance and disability payments for Saudi employees), and the General Organization for Technical Education and Vocational Training (training programs for Saudis).

Selling to the Government

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In July 2001, the Council of Ministers cancelled a decree compelling foreign companies with government contracts to appoint a Saudi service agent. The old

decree also specified a maximum commission of five percent. Therefore, foreign contractors wishing to bid for SAG contracts do not need to appoint a local service agent. Some government contracts, however, will require a minimum requirement to subcontract to Saudi companies. In addition, government contracts will include a clause to develop training programs for Saudis. As a practical matter, U.S. companies seeking sales of goods and services to the Saudi Government are encouraged to appoint a reputable and well-entrenched agent or distributor with experience in the field.

U.S. firms considering sales to the Government should request a briefing from the U.S. Embassy concerning the latest situation on payments and how U.S. firms can protect and secure timely disbursements.

Foreign contractors operating solely for the Government, if not already registered to do business in Saudi Arabia, are required to obtain temporary registration from the Ministry of Commerce and Industry within 30 days of contract signing.

Foreign companies also may be allowed to establish a branch office through the new Foreign Investment Regulations. These offices were usually approved only for foreign defense contractors and high-tech companies, while for others, a liaison office may be established to supervise work in Saudi Arabia and to facilitate coordination between the Government and the foreign company home office.

Foreign contractors involved in government projects are required to establish a training program for Saudi nationals. Some government contracts will also require a minimum amount of subcontracting with Saudi companies. In addition, the SAG may favor Saudi-foreign joint venture companies as opposed to foreign firms and will also support companies that use Saudi manufactured goods and services.

U.S. companies were among the first to come to Saudi Arabia, and seven decades later, American companies are still at the forefront of the Saudi marketplace. The Saudi economy is the biggest in the Near East and presents tremendous potential for those companies willing to enhance their presence in this vital and strategic market.

Some of the growth sectors include:

- The Oil and Gas Sector: Saudi Arabia has 264.2 billion barrels of proven oil reserves (more than one-fourth of the world total) and up to 1 trillion barrels of ultimately recoverable oil. Saudi Arabia is the world's leading oil exporter and maintains production capacity of around 9 – 9.5 million barrels per day. Saudi Arabia is the most influential member of the Organization of Petroleum Exporting Countries (OPEC), and Saudi oil policy makers remain committed to being reliable suppliers and have renounced any interest in using an oil embargo as a "weapon" to influence U.S. foreign policy. Oil represents 90-95 percent of total Saudi export earnings, 75 percent of state revenues, and about 35-40 percent of GDP.

The Saudi Arabian Gas sector has considerable untapped potential, with proven natural gas reserves estimated at 235 trillion cubic feet. Overall, Saudi Arabia aims to triple natural gas output to 15 Bcf/d by 2009. Domestic demand is driving a \$4.5 billion expansion of Saudi Arabia's Master Gas System (MGS). The MGS feeds gas to the

industrial cities of Yanbu and Jubail. Prior to the MGS, all of Saudi Arabia's natural gas output was flared.

- Manufacturing: The Saudi private sector was expected to continue its growth in 2004. The latest figures indicated that the Saudi non-oil industrial sector grew 6.4 percent in constant terms in 2004 reflecting consumer spending and investment confidence. Since the establishment of the Saudi Arabian General Investment Authority (SAGIA) in April 2000, SAGIA has approved more than \$15 billion in foreign investment projects, including joint foreign-Saudi ventures, although actual new investment has been significantly less. Preliminary figures indicate that total banks lending to the manufacturing sector increased by nine percent in 2004, from \$7.09 billion in 2003 to \$7.71 in 2004. Banking sources expect a similar performance in 2005 with continued low interest rates and low inflation to enhance consumer confidence and investments.

The Saudi Government is implementing various structural reforms to attract more foreign direct investments. The Saudi petrochemical sector tops the list of new industrial investments especially in the industrial cities of Jubail and Yanbu.

- Construction: The jump in crude oil prices in 2004 has sparked strong construction activity, especially in the government sector. Budgetary surplus has enabled the government to move ahead with previously postponed projects. In 2005, the Saudi Government allocated \$20.1 billion for various projects and programs in its 2005 budget, double the 2004 figure. The budget outlays will include projects in the healthcare sector, water projects, and highways and roads. By the same token, Saudi banks lending to the building and construction sector recorded an astronomical growth of 12.3 percent in 2004, reaching close to \$6.59 billion.

- Banking: The Saudi banking system remains one of the strongest and most profitable in the region. With high liquidity and profits, the banking sector did as well as the rest of the Saudi economy in 2004. Eleven majority Saudi-owned banks and five GCC banks are licensed to operate in Saudi Arabia, though only one of the five GCC banks, Bahrain-based Gulf International Bank has opened. In 2004, the Saudi Arabian Monetary Agency (SAMA) granted four licenses to foreign (non-GCC) banks, namely, Deutsche Bank, HSBC, BNP-Paribas, and JP Morgan. The new Capital Markets Law, promulgated in June 2003, calls for the transformation of the informal interbank bourse into a privatized stock market with an independent regulator and allows for non-bank financial advisors. The Saudi stock market registered gains for a sixth year in a row, increasing overall market capitalization by 95 percent to \$306.4 billion in 2004. A good portion of the oil profits in the Saudi economy found its way into the Saudi stock market, driving up the Tadawul All Share Index (TASI) by 85 percent, reaching 8,206.23 by the end of 2004. The Saudi exchange is very thin, with only 72 companies listed as of December 31, 2004.

- Water: In July 2001, the Ministry of Water was created, and given the responsibility to develop and address the country's water resources. In order to meet expected demand growth in water, the government will have to invest \$3 billion a year in infrastructure development over the next twenty years. Saudi Arabia is rapidly depleting its 2.185 billion cubic meter of proven groundwater, where 95 percent of water comes from aquifers, four percent from desalination and one percent from wastewater reclamation.

The [Saline Water Conversation Corporation](#) (SWCC) forecasts that demand for desalinated water will rise by 60 per cent to 10.7 million cubic meters a day by 2010, based on average per capita consumption of 300 liters a day. SWCC projects the cost of investment required to meet desalinated water demand by 2020 at \$53 billion, making the participation of foreign investors an attractive option.

In an effort to attract private investment into this vital sector, a [Water and Electricity Company](#) (WEC) was created to be the Saudi government arm for the Independent Water & Power Plants (IWPPs). Saudi Arabia plans to set up 10 new independent water and power plants (IWPPs) by 2016. The Government is also re-assessing water tariffs and studying changes to existing regulations.

- Insurance: In July 2003, Saudi Arabia passed a regulatory insurance law. The implementing regulations were also adopted in 2/6/1424. As of May 2004, insurance remains on SAGIA's "negative list" of sectors in which foreign participation is prohibited. SAGIA has pledged to remove insurance from the negative investment list before the end of 2004, setting the stage for foreign equity in the Saudi insurance market. Industry sources expect the regulations will require insurance companies a minimum capitalization of \$26 million to be licensed and operate in the market.

The adoption of the new insurance law is expected to boost the market, which has a potential to generate close to one billion dollars in premiums annually and increasing by an average eight to 10 percent every year. Medical insurance premiums are expected to reach the \$5 billion mark over the next five years, as medical coverage will extend to Saudi nationals working in the private sector. SAMA expects to implement the decision in February 2005. Car insurance will also be a sector with tremendous growth as a result of the mandatory insurance regulation on driving license that was imposed in 2002. Since then, premiums have grown astronomically by 126 percent reaching \$165 million in 2003.

Industry sources expect the insurance sector contribution to GDP to increase from 0.7 percent to 3.7 percent in 2005.

- Power: With demand for power growing by 5.5 percent per year, Saudi Arabia will have to increase its present 23.6 GW power generating capacity to 66 GW by 2020. This should require a minimum annual investment of \$2 billion per year. Most of this new generating power will come from natural gas-fired or combined cycle plants.

The government is expected to invite the private sector to invest in the country's power sector, offering 11 power generation and desalination projects to the private sector. These projects are expected to be implemented during a four-year period ending in 2010, and most of the capital investment will need to come from the private sector, including foreign investors.

- Telecommunications: The telecommunications sector remains one of the most dynamic sectors in Saudi Arabia. Since its privatization in 1998, [Saudi Telecommunications Company](#) (STC) has carried out major telecommunications projects kingdom-wide, gradually taking over this role from the Ministry of Post, Telephone and Telegraph (PTT). Opportunities for U.S. firms exist in the broadband sector where STC has ambitious plans to expand and upgrade its telecommunication services based on the latest broadband technologies. These services include fast

Internet services and digital subscriber lines (DSL). The [Communications and Information Technology Commission](#) has already granted a second GSM license and a third license is expected by the end of 2005. Furthermore, CITC will issue two additional licenses to qualified firms to provide data services.

Distribution and Sales Channels

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There are three major distribution and sales regions in Saudi Arabia: The Western Region, with the commercial center of Jeddah; the Central Region, where the capital city Riyadh is located; and the Eastern Province, where the oil and gas industry is most heavily concentrated. Each has a distinct business community and cultural flavor, and there are only a few truly "national" companies dominant in more than one region.

U.S. exporters may find it advantageous to appoint different agents or distributors for each region having significant market potential. Multiple agencies and distributorships may also be appointed to handle diverse product lines or services. Multiple agencies and distributors can present logistical and management difficulties, so often U.S. firms, particularly in the franchise sector, choose to appoint a master franchiser or distributor for the Gulf region. However, finding a master regional distributor can be just as problematic as dealing with half a dozen or more for some very small countries and markets as the Gulf states often compete in commercial sectors.

While there is no requirement that distributorships be granted on an exclusive basis, it is clearly the policy of the Saudi Ministry of Commerce and Industry that all arrangements be exclusive with respect to either product line or geographic region.

Selling Factors/Techniques

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Expatriate managers have had a strong influence in introducing advanced selling techniques into a market that relied heavily on word-of-mouth and established buying patterns until a few years ago. Saudi consumers are increasingly becoming discerning and more sophisticated.

Although details of a transaction can be handled by fax, now widely used, no serious commitment is likely to be made without a face-to-face introduction. Business cards are usually printed in English on one side and Arabic on the other. Saudis are gracious hosts and will try to put a visitor at ease, even during arduous business dealings. A large portion of upper and middle class Saudis were educated in the United States or in Europe.

Financing may be offered as part of a sales proposal, usually after a solid relationship has been established. Financing is increasingly becoming an important facet of business dealings with Saudi Government agencies. Recently, the Saudi Government approved the Capital Markets Law, which will regulate the stock market and pave the way for a more sophisticated financial market.

Foreigners, except GCC nationals, need to find a Saudi partner before they are allowed to engage in trade within Saudi Arabia, but direct sales can be made to Saudi private clients without having to use a local agent.

Many Saudi companies handle numerous product lines (sometimes even competing product lines), making it difficult to promote all products effectively. Saudi agents typically expect the foreign supplier to assume some of the market development costs, such as hiring of dedicated sales staff (especially for high-tech or engineered products), setting up workshops and repair facilities, and funding local advertising. Foreign suppliers often detail a sales person to the Saudi distributor to provide marketing, training, and technical support. Absent such an arrangement, U.S. firms should expect to make frequent, periodic visits each year to support their Saudi distributor.

Electronic Commerce

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Internet services are freely available and the main cities have several Internet Service Providers (ISPs) and Internet café's. High speed DSL Internet is also available. Moreover, the Internet infrastructure can now support over one million concurrent customers.

When compared to the global volume, E-commerce in Saudi Arabia is significantly low at \$150 million. Some of the obstacles that hinder the rapid and smooth implementation of electronic business in the Saudi market include:

- The unfilled (and ever-increasing) demand for bandwidth
- The relatively high cost of an e-business transaction compared to the cost of conducting a voice transaction
- The social adaptation that is necessary for people to gradually understand and use E-commerce
- Consumer confidence in electronic transactions in a still mainly cash-driven society
- The shortage of skillful people to transform to an electronic business model
- The current shortage of interconnectivity in the region's web sites, and
- The lack of commercial legislation specifically for E-commerce transactions.

[Saudi Aramco](#), the national oil company, is spearheading the use of e-commerce and also encouraging local vendors to do the same in order to expedite and streamline procurement procedures.

Trade Promotion and Advertising

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Advertising, especially on satellite television, is rapidly expanding. Any commercial has to conform to religious and ethical codes. With some modest exceptions, the female human form is not culturally or religiously acceptable in the media. Saudi monopoly on television broadcasting was infringed with the advent of satellite television, which also forced TV advertising rates to come down.

Saudi companies have opted to run commercials through international satellite TV channels such as the [Middle East Broadcasting Corporation](#) (MBC) and [Arab Radio & Television](#) (ART). Other Arabic satellite channels that also have proved to be popular in the Arab world include [LBC](#), [Future Television](#), [Dubai TV](#), [New TV](#), and lately [Channel 2](#). Many Saudi companies place commercials on these channels as well as

on two pan-Arab news channels, [Arabiya](#) and [Al-Jazira](#) channels. In addition, two encrypted TV networks each provide approximately 30 channels for an average subscription of \$1000 per year. The networks include Orbit Communications and ShowTime.

Newspaper advertising is carried in both the local English and Arabic press, but its effectiveness is somewhat limited by relatively low readership rates. The three local dailies published in English have a circulation in the range of 20,000 to 50,000 copies: [Arab News](#), [Saudi Gazette](#), and Riyadh Daily (Riyadh). The leading Arabic newspapers, with nationwide distribution, have circulation in the 70,000 to 100,000 range: [Al Hayat](#), [Asharq Al Awsat](#), and [Okaz](#).

Other relevant newspapers have lower circulation, and some have only regional distribution: Al Bilad, [Al Jazirah](#), [Al Madina](#), Al Nadwa, [Al Riyadh](#), Al Youm, Um Al Qura, [Al Watan](#), Al-Riyadiya (sports only). Another economic daily, [Al Eqtisadiah](#), has rapidly earned a loyal readership of executives and Government officials.

Numerous trade promotion events take place from September through June, with most of them held in the modern exhibit centers in Saudi Arabia's three major cities, [Riyadh](#), [Jeddah](#), and [Dhahran](#).

Smaller exhibit facilities are also located in regional centers, and often operate in cooperation with or under the sponsorship of a local Chamber of Commerce.

Most Chambers have a proactive approach to promotion and trade, organizing shows and presentations for individual companies or groups, and have been eager to attract American and other Western suppliers. The main Chambers of Commerce are listed in Chapter 9 (Contacts, Market Research and Trade Events).

In addition, the Commercial Service (CS) has a very dynamic annual [Trade Events Calendar](#) with Trade Missions, Catalog Shows, Domestic, and International Trade Shows. [CS Saudi Arabia](#) office is also very active in promoting and recruiting for trade shows in the U.S. under the [International Buyer Program](#) (IBP).

Pricing

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The Government maintains a free trade approach and since 1981, the [Saudi Arabian Monetary Agency](#) (SAMA), the Central Bank, has pegged the Saudi Riyal to the U.S. Dollar, to facilitate long term planning and minimize exchange risk for the private sector. As such, Saudi importers expect U.S. producers to practice a more stable pricing policy than their foreign competitors.

Products are usually imported on a CIF basis, and mark-ups depend almost entirely on what the vendor feels that the market will bear relative to the competition. There is no standard formula to come up with the mark-up rates for all product lines at different levels of the relatively short distribution chain.

Contrary to popular belief, pricing is very important to the average Saudi. Therefore, where there are competitive products, Saudi buyers frequently will compare prices before making a decision.

Stability of prices has been a policy of the Saudi Government for years, and inflation has been roughly maintained at very low levels. For the U.S. supplier, some give-and-take is expected in preliminary negotiations. The asking price is usually lowered slightly to entice the client and to bow to the old-fashioned Saudi penchant for bargaining and personal exchange. As leveraged transactions become the norm, Saudis have come to understand that an attractive financial package can be even more interesting than an up-front low price.

Sales Service/Customer Support

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Saudi Arabia is a relatively open market, which makes it highly competitive. Brand loyalty and established preferences are less developed than in other countries. Consequently, sales service and customer support is indispensable to win and maintain new clients.

Saudis view a foreign firm's physical presence in the Kingdom as a tangible sign of a long-term commitment. Prompt delivery of goods from available stock and the presence of qualified support technicians have become more important, and they influence repeat business much more now than ten or even five years ago. Government agencies usually require equipment suppliers to commit to providing maintenance and spare parts for an average period of three years.

Protecting Your Intellectual Property

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The Saudi legal system protects and facilitates acquisition and disposition of all property rights, including intellectual property. The Saudi Government has acceded to the Universal Copyright Convention; implementation began in 1994. The Saudi Copyright Law was amended in June 2003 to improve protection and to provide for serious deterrent penalties for violators. The government also endorsed the country's joining the "Paris Convention for Protection of Industrial Property" and the "Berne Convention for the Protection of Literary and Artistic Works". Moreover, the highest religious authority in Saudi Arabia has condemned software piracy in a "Fatwa", a religious edict. Though intellectual property protection has steadily increased in the Kingdom, piracy remains a problem.

U.S. firms that wish to sell products in Saudi Arabia should work through their local representative to register their trademarks with the Ministry of Commerce & Industry, copyrighted products with the Ministry of Information, and patents with [KACST](#) or the [GCC Patent Office](#). Although these government entities are responsible for IPR protection in their respective areas, any reported incident of piracy or infringement may not entail immediate and decisive action by the concerned government entity.

Additional information on Saudi Arabia's protection of property rights, trademarks, and patents is addressed in more detail in Chapter 6 (Investment Climate).

Due Diligence

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In 2001, the [Commercial Service in Saudi Arabia](#) reinstated the [International Company Profile](#) (ICP) reports in association with Dun & Bradstreet. The report will provide detailed information on a specific Saudi company based on a D&B report and U.S. Embassy Commercial Section comments about the company.

Local Professional Services

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There are many firms throughout Saudi Arabia offering professional services to foreign and domestic firms alike. The following websites provide access to various business support networks, including lawyers, translators, and a representative group of other service providers that offer their professional services to U.S. exporters and investors interested in Saudi Arabia.

[Business Service Providers](#)

[Translators - Riyadh, Saudi Arabia](#)

[Lawyers - Riyadh, Saudi Arabia](#)

[Hospitals - Riyadh, Saudi Arabia](#)

[Tax Assistance - Riyadh, Saudi Arabia](#)

[Translators - Dhahran, Saudi Arabia](#)

[Lawyers - Jeddah, Saudi Arabia](#)

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[Physicians List - Jeddah, Saudi Arabia](#)

Web Resources

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[Gulf Cooperation Council](#)

[Gold Key Service](#)

[Saudi Arabian Standards Organization](#)

[Saline Water Conversion Corporation](#)

[Saudi Telecommunications Company](#)

[Communications and Information Technology Commission](#)

[Saudi Aramco](#)

[Arab Radio & Television](#)

[Future Television](#)

[New TV](#)

[Arabiya](#)

[www.arabnews.com](#)

[www.asharqalawsat.com](#)

[www.alriyadh-np.com](#)

[www.aleqtisadiah.com](#)

[www.almadinapress.com](#)

[www.recexpo.com](#)

[www.dhahran-expo.com](#)

[CS Saudi Arabia](#)

[Saudi Arabian Monetary Agency](#)

[GCC Patent Office](#)

[International Company Profile](#)

[Translators - Dhahran, Saudi Arabia](#)

[Lawyers - Jeddah, Saudi Arabia](#)

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[Physicians List - Jeddah, Saudi Arabia](#)

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[International Partner Search](#)

[Saudi Arabian General Investment Authority](#)

[Saudi Industrial Development Fund](#)

[Water and Electricity Company](#)

[Foreign Credit Insurance Association](#)

[Middle East Broadcasting Corporation](#)

[LBC](#)

[Dubai TV](#)

[Channel 2](#)

[Al-Jazira](#)

[www.saudigazette.com.sa](#)

[www.alhayat.com](#)

[www.al-jazirah.com](#)

[www.okaz.com.sa](#)

[www.alwatan.com.sa](#)

[www.acexpos.com](#)

[Trade Events Calendar](#)

[International Buyer Program](#)

[KACST](#)

[Commercial Service in Saudi Arabia](#)

[Business Service Providers](#)

[Translators - Riyadh, Saudi Arabia](#)

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[Hospitals - Riyadh, Saudi Arabia](#)

[Tax Assistance - Riyadh, Saudi Arabia](#)

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Chapter 4: Leading Sectors for U.S. Exports and Investment

- [Agricultural Sector](#)

Commercial Sectors

- [OIL/GAS FIELD MACHINERY \(OGM\)](#)
- [SECURITY/SAFETY EQUIPMENT \(SEC\)](#)
- [TELECOMMUNICATION SERVICES \(TES\)](#)
- [EDUCATION/TRAINING \(EDS\)](#)
- [MEDICAL EQUIPMENT \(MED\)](#)
- [AIR CONDITIONING/REFRIGERATION EQUIPMENT \(ACR\)](#)
- [ELECTRICAL POWER SYSTEMS \(ELP\)](#)
- [TRANSPORTATION SERVICES \(TRN\)](#)
- [FINANCIAL SERVICES \(FNS\)](#)
- [WATER RESOURCES EQUIPMENT/SERVICES \(WRE\)](#)
- [COMPUTER SERVICES \(CSV\)](#)
- [AUTOMOTIVE PARTS/SERVICE EQUIPMENT \(APS\)](#)
- [DRUGS/PHARMACEUTICALS \(DRG\)](#)
- [FURNITURE \(FUR\)](#)
- [FRANCHISING \(FRA\)](#)
- [INSURANCE SERVICES \(INS\)](#)

OIL/GAS FIELD MACHINERY (OGM)

Overview

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Saudi Arabia produces between 12-14 percent of global crude oil. It has 286 discovered billion barrels of oil equaling 25 percent of the world's oil reserves. Saudi Arabia is one of the top oil exporting countries. Exported crude oil is the major revenue for the Saudi treasury. The high demand for oil and the rise in its price have made Saudi Arabia increase the volume of its exporting quota from 8.4 million barrels per day (b/d) to 9.0 million b/d to meet the oil shortage in the world markets. Saudi Arabia's estimated gas reserves, which were reported at 235 trillion cubic feet placed the Kingdom as the world's fourth country in gas. Saudi Aramco is also the 9th biggest gas producer in the world processing 1, 825 billion cubic foot in 2003 with a world market share of 2 percent.

	2002	2003	2004 (estimated)
Total Market Size	461.2	338.5	372.3
Total Local Production	n.a.	n.a.	n.a.
Total Exports	75.5	112.1	123.3
Total Imports	536.7	450.6	495.6
Imports from the U.S.	79.4	112.1	158.2

(Saudi Aramco; Embassy estimates)

Best Products/Services

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Oil and gas projects will continue to be important end-users in hundreds of millions of US dollars of engineering services, oil and gas field equipment, chemicals, power generation equipment, and many ancillary parts and services.

Opportunities

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The current value of nine on-going projects at [Saudi Aramco](#), the national oil company, in upstream gas, upstream oil, downstream oil and gas and pipelines is \$8,270 million dollars.

Resources

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[Saudi Aramco](#)

SECURITY/SAFETY EQUIPMENT (SEC)

Overview

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Safety concerns in Saudi Arabia are fueling a rapid expansion in the security market. Imports for 2003 are estimated at \$261.2 million – a 40 percent increase from 2002, with a further 30 percent rise expected in 2004. The country was rocked in 2003/2004 by: terrorist bombings at five residential compounds; street murders and the beheading of a US citizen; over 20 gun battles between terrorists and Saudi security forces; and the seizure of a worrying assortment of explosives and weapons with documented plans to attack public and private buildings, installations, residences and individuals. Security is now a primary factor in everyone's lives.

American equipment is seen as top of the market with the U.S. holding an estimated 64 percent market share and Europe and Asia as the major competitors. The current strength of the Euro is positively influencing local buying decisions.

	2002	2003	2004 (estimated)
Total Market Size	187.2	261.9	340.2
Total Local Production	0.6	0.7	0.6
Total Exports	0.0	0.0	0.0
Total Imports	186.6	261.2	339.6
Imports from the U.S.	117.6	167.2	213.9

Embassy estimates

Best Prospects/Services

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Throughout the country, public and major private organizations are re-assessing and upgrading security. Particular attention is being paid to Access Control, Identification (ID) equipment, Closed Circuit Television (CCTV), Scanning equipment (x-ray, metal and explosives detection), Road-Blockers, and Tire Killers (sales of this range of items grew by an estimated 50 percent in 2004 and are expected to register a 25 percent growth in 2005).

Opportunities

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Further market stimulus is provided by: a project being discussed to provide ID cards for approximately 3 million pilgrims annually; a Saudi Arabian national ID card now being introduced with Phase III (the issuance of some 300,000 ID cards) scheduled for 2005; possible fingerprinting of all visitors arriving in the country; Traffic Department at MOI plans to install a vehicle identification system with cameras; high-tech border security is being implemented; port security is being upgraded in line with International Maritime Organization (IMO) regulations; and, safety and security equipment at airports is under review.

Resources

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There are two chapters of the American Society for industrial Security (ASIS) in Saudi Arabia: Middle East Chapter 72 and Riyadh Chapter 218 (www.asisonline.org)

The largest non-military user of safety and security equipment and systems in Saudi Arabia is Saudi Aramco, the national oil company. Download "Purchases Policies and Procedures" booklet for instructions on how to sell to the company.

The Ministry of Interior is responsible for all aspects of public security, civil defense, firefighting service, police, passports, investigation, and special forces. Their website is still under construction (www.security.gov.sa)

TELECOMMUNICATION SERVICES (TES)

Overview

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Telecommunication services remain one of the most active and dynamic sectors in Saudi Arabia. Since its privatization in 1998, [Saudi Telecommunications Company](#) (STC) has been carrying out major telecommunications projects kingdom-wide, gradually taking over this role from the Ministry of Post, Telephone and Telegraph (PTT).

Industry sources expect that revenues in Saudi Arabia's GSM market will soar to \$7.9 billion by 2007 on the back of the partial privatization of Saudi telecom and increased competition.

The latest figures released by [CITC](#) provide for the following:

- Landlines 4,3 million (approx)
- GSM lines 7,7 million (approx)
- VSAT providers: Four companies
- Internet providers: 22 companies
- Internet users: 1,500,000

Best Prospects/Services

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A major expansion and upgrading is imminent in the broadband sector and the introduction of 3 G telecom network where STC has ambitious plans to expand and upgrade its telecommunications services based on the latest broadband technologies. These services include fast Internet services and digital subscriber lines (DSL). Potential exists for DSL access switching equipment, Enabling multi-service transmission equipment, fiber optic, satellite systems, transceivers, network protocol software and systems, broadband wireless access system, and broadband transceivers.

Opportunities

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To echo the concurrent change, the PTT Ministry was renamed the Ministry of Telecommunications and Information Technology. The new set of telecommunications regulations will facilitate the deregulation of this industry and ultimately create more than one telecom operator.

The Communications and Information Technology Commission has recently awarded the second public mobile license to United Telecom Group, [Etihad Etisalat](#) (UAE Consortium that includes five Saudi partners). Prior to commencement of the project, this consortium will pay to the Saudi Government an upfront amount of \$3.8 billion. A third GSM license will be issued to a new operator by the end of 2005. Furthermore, CITC will soon issue licenses to two qualified firms to provide data services and the VOIP service will also be launched in early 2006.

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[Saudi Telecommunications Company](#)

[Etihad Etisalat](#)

[Communications and Information Technology Commission](#)

EDUCATION/TRAINING (EDS)

Overview

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The Saudi education system is undergoing reform. The Saudi government is changing the school curriculum, allowing foreign and private investors to establish new schools, vocational training centers and universities. In the past five years, four private colleges were established, one university, and an unspecified number of private schools. One of the colleges is affiliated with an American college and another secondary school is also associated with a foreign school curriculum ([SABIS](#)).

[The Ministry of Education](#) is spearheading a pilot program for online education at Saudi schools and the program will be launched at some 180 schools across Saudi Arabia at a total cost of \$15 million. Saudi Arabia has a population of 22 million one-third is expatriates. In its drive to provide for more jobs to the Saudi population, the government established a fund to help support the training of Saudi youths.

On the other hand, training needs are increasingly becoming important as more high school and university graduates enter the labor market. Industry sources expect training requirements to grow five percent per annum over the next three years. Some factors contributing to this rapid increase include:

- The Saudi Arabian Government plans to replace 60 percent of the estimated six million expatriate workers with Saudi nationals by 2005.
- The number of school/university graduates is growing rapidly.
- A stringently enforced Saudization program.

There are a number of American franchisers in the Education and Training field in Saudi Arabia, namely, Berlitz, Wall Street, Crestcom, New Horizons, Franklin Covey, and DEI, among others.

Best Prospects/Services

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- School and university curriculums
- ESL staff
- Technical and language training centers

Opportunities

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The government needs to create conditions that foster a robust, growing private sector with expanding employment needs and an educated Saudi workforce equipped with 21st century job skills, including technical and foreign language capabilities.

Resources

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[Ministry of Education](#)
[GOTEVOT](#)

[Ministry of Higher Education](#)

MEDICAL EQUIPMENT (MED)

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Saudi Arabia has the largest market for medical equipment and related services in the Arabian Gulf, accounting for 55 percent of total imports to this region. The [Ministry of Health](#) is the largest buyer representing around 60 percent of local demand.

Expenditures on medical equipment have been growing annually between seven to 10 percent, and were expected to be around \$267 million in 2003. Appropriations in the new government budget entail building 420 primary health care centers, 23 hospitals, and expanding and upgrading existing healthcare facilities.

Currently, there are 318 hospitals, both general and specialized, with a total capacity of 46,400 beds in Saudi Arabia. The Ministry of Health is the largest provider of health care services, and the government allocated more than \$7 billion in 2005 with \$1.2 billion to be spent on new projects.

Best Prospects/Services

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There is a yearly requirement for across the board medical and hospital disposables. In addition and on an annual basis, each government entity puts out a list of needed equipment and instruments for their hospitals. Equipment and parts for diagnostic imaging, kidney and heart transplants operations, dialysis equipment and parts, pulmonary diseases, intensive care unit, emergency and traumatic care, ambulatory care, pediatric and neonatal care, cancer and leukemia therapy are among some of the equipment regularly upgraded and/or replaced.

Opportunities

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Other than the Ministry of Health, there are also ample opportunities for the supply of medical equipment and hospital instruments to other government entities as well, namely, to the [Ministry of Defense and Aviation](#), [Ministry of Interior Medical Services](#), the [Saudi Arabian National Guard Health Affairs](#), the [General Organization for Social Insurance hospitals](#), and to the Ministry of Higher Education university hospitals. Nonetheless, the private sector is outpacing the public sector in the construction of hospitals and polyclinics among them is the [International Medical Center](#) in Jeddah, [Dr. Suleiman Al-Habib Medical Center](#) in Gassim, [Saad Specialist Hospital](#) (Expansion) in Al-Khobar, and [Almana General Hospital](#) in Al-Ihsa.

Resources

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[Ministry of Health](#)

[Ministry of Defense and Aviation](#)

[Ministry of Interior Medical Services](#)

[Saudi Arabian National Guard Health Affairs](#)

[General Organization for Social Insurance hospitals](#)

[International Medical Center](#)

[Dr. Suleiman Al-Habib Medical Center](#)

[Saad Specialist Hospital](#)

[Almana General Hospital](#)

AIR CONDITIONING/REFRIGERATION EQUIPMENT (ACR)

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Saudi Arabia remains one of the most rapidly growing markets for air-conditioning and refrigeration equipment. American and Japanese manufacturers have traditionally controlled the market, although Korean and Chinese brands, especially the split system is gaining ground. Korean companies, such as LG, Samsung, Hyundai and Daewoo are winning market share in the retail residential sub-sector. In fact, Saudi Arabia has the largest market in the Near East/North Africa for U.S.-sourced air-conditioning, refrigeration equipment, and parts. Rapid population growth and a harsh climate combine to keep Saudi Arabia a lucrative market for HVAC equipment, which is expected to grow by an average five percent annually. Currently, the market is estimated at more than \$1.0 billion.

U.S. suppliers dominate the chillers and packaged units segment, which are usually associated with large construction projects. Both Japanese and Korean manufacturers dominate the split system, while Chinese brands are slowly but fiercely gaining ground. Local manufacturing consists of room air-conditioning, mini-split units, packaged systems, and chillers. There are seven local manufacturing/assembly plants of air-conditioning units in Saudi Arabia. One of these plants manufacture under license from American firms, Gibson, two are a joint venture with American firms York and Carrier, while a Japanese company Mitsubishi licenses the fifth, and three are independent.

In the refrigeration sector, there is ample and continuous need for cold storage facilities, both stationary and mobile.

	2002	2003	2004 (estimated)
Total Market Size	963	1010	1060
Total Local Production	337	355	374
Total Exports	102	111	120
Total Imports	728	766	806
Imports from the U.S.	276	290	306

Embassy and Industry Sources

Best Products/Services

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- Compressors
- Components
- Chemicals
- Specialty tools
- Electric motors
- Scientific and measurement instruments
- Copper tubing

Opportunities

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Saudi construction is booming, both for public and private projects. Budgetary surplus has enabled the government to move ahead with previously postponed projects. In

2005, the Saudi Government allocated \$20.1 billion for various projects and programs in its 2005 budget, double the 2004 figure. The budget outlays will include projects in the healthcare sector, water projects, and highways and roads. By the same token, Saudi banks lending to the building and construction sector recorded an astronomical growth of 12.3 percent in 2004, reaching close to \$6.59 billion. Ample liquidity in the Saudi banking sector will further induce lending to the construction and building sector.

ELECTRICAL POWER SYSTEMS (ELP)

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With one of the highest per capita electricity consumption rates in the world, Saudi Arabia has to expand its power capacity and network to meet the needs of a growing population, and to support the Kingdom's ambitious industrialization plan.

Demand for power is growing at an average of 5.5 percent per year, and the SAG is barely keeping up with this growth. Industry experts believe that the government has to add 40,000 MW of generating capacity over the next 20 years, with the bulk of this investment coming from private investors. By 2005, new capacity will come on stream with the completion and commissioning of the Shuaiba plant, Jeddah PP-3, Riyadh PP-7 expansion, Tabuk expansion, Rafha Power Plant, Arar expansion, Asir expansion, Bisha expansion, and Riyadh PP-9 expansion.

In 2001, the [Royal Commission for Jubail and Yanbu](#) founded the [Power & Water Utility Company for Jubail and Yanbu](#) known as (Marafiq). This company is responsible for planning and developing power and water utilities in Jubail and Yanbu industrial cities. Also in 2001, the SAG approved the formation of the Gulf Interconnection Authority (GCIA), which will be responsible for connecting the national grids of the Gulf Cooperation Council (GCC) states. The GCC states include Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates. The company will develop the scheme on a build-operate-transfer (BOT) basis. The initial phase of the grid (connecting Northern Gulf region including Bahrain, Kuwait and Saudi Arabia (which will stretch some 1,200 kilometers), is expected to be operational by 2008.

Another major development took place in May 2003 with the establishment of a new company, [Water & Electricity Company](#) (WEC), between the Saline Water Conversion Corp. (SWCC) and Saudi Electricity Co. (SEC) to carry out the independent Water and Power Project (IWPP) in partnership with the developer. There are four IWPP projects under bidding at Shuqaiq (Phase 2), Shouaiba (Phase 3), Ras Al-Zour, and Jubail (Phase 3). The four projects will have a power generating capacity of 5,250 MW.

Best Products/Services

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Due to the aging process of old gas turbines operating at Saudi power generation plants, the demand for spare parts and components is expected to increase significantly.

The following products/services will have excellent potential:

- Gas turbine units
- Steam turbine units
- Turbine spare parts & accessories
- Power plant design engineering firms
- Power Plant consulting firms

- Products and services related to the Power industries, such as valves, compressors, pumps, spare parts, as well as various other related equipment and products.

Opportunities

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Major business opportunities will be forthcoming as the sector opens up for privatization. Industry sources expect that the Saudi Government will be building more power and water plants on a BOO basis with the newly-established company, Water & Electricity Company (WEC), taking the lead toward that aim. Initially, WEC plans to set up the first group of four IWPP projects with an investment potential of \$6.12 billion. These IWPP projects will provide desalinated water and power to their respective regions.

On January 1, 2003, the Power and Water Utility Company for Jubail and Yanbu (MARAFIQ) was established to undertake the operation, management, expansion and construction of seawater cooling systems, water desalination plants, sanitary and industrial wastewater systems and electric power systems, thus providing essential utility services to industrial, commercial and residential customers in the industrial cities of Jubail and Yanbu.

Resources

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[Royal Commission for Jubail and Yanbu](#)

[Water & Electricity Company](#)

[Power & Water Utility Company for Jubail and Yanbu](#)

TRANSPORTATION SERVICES (TRN)

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The transportation industry will be experiencing an unparalleled boom in the years ahead. The Saudi government is planning to improve the public transport system and has allocated \$2.36 billion to implement new projects, building new roads and highways, upgrading seaports and airports, building and developing the railroad system, and improving inner cities public transport.

Best Products/Services

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The government's resolve to develop and enhance Saudi Arabia's public transportation system will present good opportunities for American companies in the following categories:

- American engineering and design companies
- Locomotive companies
- Bus manufacturers
- Wagon manufacturers
- Railroad consultants
- Ship building companies
- Trams and subways designers and manufacturers
- Companies specialized in road tolls booth and technology.
- Toll Road Booths

Opportunities

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- A railway project, which will link the Al-Jalamid and Al-Zabirah mining projects to the Eastern coast of Saudi Arabia.
- The north –south rail project, from the northern mineral belt to Jubail, is currently in the planning stage.
- Two other rail projects, at a cost of \$2.67 billion, are currently in the planning stage. One project will link Jeddah with Dammam and the other will link Jeddah with Makkah and Madinah and will include an extension to the port of Yanbu.
- Plans are under way to establish an international transport center at Jeddah's old airport for a bus service to a number of Middle Eastern, North African and East European countries.
- The Saudi government is looking into a toll levy system to be imposed on 16 expressways, which will generate \$480 million by 2010.
- Expansion of Taif- Abha road considered the Kingdom's main artery of development, which links the three regions of Makkah, Baha, and Asir regions.
- A passenger shipping line will soon start operating between Dammam and Dubai, and the Saudi Ports Authority has approved plans for the construction of a passenger berth at the port.
- A new airport terminal is under construction at King Abdul Aziz International Airport (KAIA) in Jeddah.

Resources

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www.saudirailexpansion.com

FINANCIAL SERVICES (FNS)

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Saudi Arabia has generally free and open financial markets, although there are rules that limit where foreigners can invest in both the stock market and in terms of equity ownership. These limits are gradually relaxing. Financial policies generally facilitate the free flow of private capital and currency can be transferred in and out of Saudi Arabia without restriction.

Currently there are 11 banks operating in Saudi Arabia, ten majority-owned Saudi banks and one GCC bank, Gulf Investment Bank (Bahrain). Three other GCC-based banks, Emirates Bank International (UAE), National Bank of Bahrain, and National Bank of Kuwait, hold licenses to operate in the Kingdom, but have not yet opened their doors. In 2003, the Saudi Arabian Monetary Agency (SAMA) granted Deutsche Bank the first foreign (non-GCC) banking license in 20 years. In 2004, HSBC, PARIBAS, and JP Morgan applied for and received banking licenses. [SAMA](#) seems receptive to new entrants, which should deepen the pool of prospective project financing. The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. Preliminary figures for 2004 indicate that assets of the banking system are expected to reach more than \$173 billion, 20 percent more than in 2003.

The new [Capital Markets Law](#), passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market oversight body, the Capital Market Authority, and an independent, publicly held stock exchange, [Tadawul](#) – both established in 2004. New financial firms established under the new law will drive an increase in corporate and consumer finance activity. The IPO market will likely develop at a much faster pace as commercial banks and other underwriters gear up to help private Saudi firms go public under the law's streamlined registration procedures. Foreigners, with the exception of GCC citizens, may only invest in the stock market through mutual funds. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

The Saudi stock market registered gains for a sixth year in a row, increasing overall market capitalization to \$306.4 billion in 2004, up 95 percent from 2003. The Saudi exchange is very thin, with only 72 companies listed as of December 31, 2004.

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[Saudi Arabian Monetary Agency](#)
[Tadawul](#)

[Capital Markets Law](#)

WATER RESOURCES EQUIPMENT/SERVICES (WRE)

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Water is one of the most vital sectors in Saudi Arabia, which is bound for enormous growth. Saudi Arabia has relied heavily on water desalination for its fresh water since the 1950s. There are currently 27 desalination plants in the Kingdom that provide 576 million gallons a day of fresh water, accounting for 70 percent of Saudi Arabia's water supply and 30 percent of the world's desalinated water production. The water sector will require SR200 billion (\$53 billion) in investments by the year 2020 to keep up with the Kingdom's growing consumption.

Saudi Arabia is fourth in the world in average water use per citizen (43 liters per day), and that rate is growing at 2.6 percent per year. The Saudi Government is looking for foreign firms to help with its expansion of the water sector, which is opt for privatization.

The [Saline Water Conversion Corporation](#) (SWCC) plans on establishing 20 new desalination plants on the country's eastern and western coasts and increasing the pipeline network to 4,000 km at a total investment of \$14.4 billion.

On the other hand, the Saudi Government is committed to revamping the sewage system throughout the country at an estimated cost of \$18-20 billion over the next five years.

There are no statistical figures for the myriad of equipment and parts needed and used in water desalination plants and sewage water treatment plants.

In an effort to attract private investment into this vital sector, a [Water and Electricity Company](#) (WEC) was created to be the Saudi government arm for the Independent Water & Power Plants (IWPPs). Saudi Arabia plans to set up 10 new independent water and power plants (IWPPs) by 2016. The Government is also re-assessing water tariffs and studying changes to existing regulations.

Best Products/Services

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- | | |
|------------------------------------|-----------------------------------|
| - Diesel Engine and parts | - Vibration Monitoring Equipment |
| - High Pressure valves | - Chemicals |
| - Relays and Controls | - Transformers & UPS Systems |
| - Switchgear and Circuit Breakers | - Control Relays |
| - Welding equipment and components | - Flanges and fittings |
| - Gaskets and Seals | - Valves and Control Devices |
| - Measuring & testing instruments | - Laboratory Analysis Instruments |
| - Pumps & Compressors | - Boilers and Furnaces |
| - Turbines | - Lifting Equipment |
| - Fire and Safety equipment | - Pipes and tubes |

Opportunities

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SWCC plans to expand capacity over the next five years by building and/or expanding existing plants. The following are being under consideration:

- | | |
|-------------------------------------|------------------------------------|
| - Third Phase of Al-Shuaibah Plant | - Second Phase of Al-Shuqaiq Plant |
| - Ras Al-Zoor | - Third Phase of Al-Jubail Plant |
| - Al-Qunfuzah Plant | - Second Phase of Rabigh Plant |
| - Al-Leeth Plant | - Third Phase of Al-Wajh Plant |
| - Second Phase of Farasan Plant | - Third Phase of Ummluj Plant |
| - Third Phase of Al-Khafji Plant | - Fourth Phase of Al-Jubail Plant |
| - Third Phase of Yanbu-Madina Plant | - Fifth Phase of Al-Jubail Plant |
| - Fourth Phase of Al-Shuaibah Plant | - Al-Baha Plant |
| - Second Phase of Al-Birk Plant | - Tabuk Plant |
| - Third Phase of Haql Plant | - Fourth Phase of Duba Plant |

Resources

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COMPUTER SERVICES (CSV)

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Saudi Arabia is, by far, the largest Gulf Cooperation Council (GCC) Information Technology (IT) market with a spending level of around \$2 billion in 2003, with IT Services making up the largest IT sub-sector at around \$875 million. The Kingdom's IT sector has earned the distinction of being one of the fastest growing sector in the entire region. Over the next three years, the sector is expected to grow an average of 12 percent annually.

Saudi Arabia is expected to invest more than \$10 billion on IT over the next 20 years, according to sources at the Saudi Arabian Investment Authority (SAGIA) and based on a government plan referred to as the Kingdom's National IT Plan.

Estimated size of Saudi Arabia's Information, Communications and Technology market for the period 2002-2004.

	2002	2003	2004 (estimated)
Total Market Size	1800	2016	2257
Total Local Production	162	242	293
Total Exports	n.a.	n.a.	n.a.
Total Imports	1638	1774	1964
Imports from the U.S.	901	1018	1140

Industry sources; Embassy estimates

Best Products/Services

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Most of the expenditures in the IT Services sub-sector focus on implementation and support. The Saudi Government's privatization initiatives will help expand this sector, which represents more than 40 percent of the total IT market in Saudi Arabia. There are tremendous opportunities for U.S. companies, especially in the following areas:

- Business Process Automation
- Business Process Re-engineering
- Enterprise Resource Planning
- Customer Relationship Management
- Storage Management
- Supply Chain Management
- Skills Development and Training
- E-Commerce
- Network and Internet Security

Opportunities

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Various projects are currently taking place in both the public and private sectors. One of the upcoming projects include a Microwave Replacement & Backbone Upgrade at Saudi Aramco, the national oil company, which includes building a Fiber Optic network for the company at a cost of \$43 million.

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AUTOMOTIVE PARTS/SERVICE EQUIPMENT (APS)

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The automobile market in Saudi Arabia is the largest in the Middle East. Exploding demographics and changing social patterns are forcing Saudi households to acquire more cars per family. Saudi Arabia imported over 300,000 automobiles and vehicles valued at over \$3 billion last year. By the same token, U.S. exports of automobile parts and auto aftermarket parts and accessories reached \$685 million during 2003.

Although Japanese models continue to be the largest sellers in the Kingdom, American cars follow closely with a 30 percent market share. Other manufacturers include Hyundai and Daewoo from South Korea, Mercedes and BMW from Germany, and Renault and Peugeot from France. New cars and SUVs represent almost 46 percent of the market, while second hand vehicles account for about a quarter of the market but only 13 percent of the value. The United States and Germany lead in used cars sales to Saudi Arabia, while Japan also has a relatively good share of this market.

In line with car brands sold in Saudi Arabia, the market for spare parts also shows similar patterns. As Saudi per capita declined in recent years, car lifetime has almost doubled to ten years and the market for parts has boomed ever since. Nonetheless, government authorities and local car dealers are fighting the persistent problem of fake and counterfeit parts. There are over 200 dealers supplying automotive parts for U.S., Japanese, European and Asian automobiles in Saudi Arabia. The sale of Japanese parts come in first place at 36 percent of the total market, followed by American parts at 25 percent, parts for German cars at 15 percent, South Korea at eight percent; and French parts at five percent.

U.S. companies command a leading position in the supply of transmission, steering, suspension, and braking components and parts. The favorable U.S. dollar exchange rate against Euro and Japanese Yen is acting to boost the U.S. market share.

	2002	2003	2004 (estimated)
Total Market Size	655	678	702
Total Local Production	91	93	94
Total Exports	36	38	37
Total Imports	600	623	645
Imports from the U.S.	150	162	168

Embassy estimates; Industry estimates

Best Products/Services

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On average, car lifetime has doubled to almost ten years over the past few years. Likewise, the market for auto parts has grown dramatically. Many used vehicles imported from the United States are repaired and refurbished for resale. Although some spare parts are manufactured locally under license, the bulk of automotive parts are imported.

There are good opportunities for U.S. companies in the following areas:

- Service Equipment
- Body and chassis parts
- Automobile transmissions and spare parts
- Auto chemicals

DRUGS/PHARMACEUTICALS (DRG)

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Being the largest GCC country, Saudi Arabia consumes about 65 percent of all pharmaceutical imports to the GCC market. There is concern, however, over the Saudi Government's handling of IPR issues, especially those related to pirated pharmaceuticals. Saudi health officials have tried to reassure manufacturers saying that pirated versions of patent-protected drugs will not be registered with the Saudi Government.

The Saudi market for pharmaceuticals continues to be the largest and most dynamic market in the region. The latest figures indicate that Saudi Arabia spends \$1.2 billion a year on pharmaceuticals.

The Saudi public sector represents 40 percent of the demand for pharmaceuticals, while private hospitals and households account for the balance. The share of local manufacturers has steadily grown over the last three years from 20 percent in 2001 to almost 30 percent in 2003. Due to the global nature of this industry, it is hard to differentiate between the share of U.S. or European pharmaceutical companies, but combined both account for more than 70 percent of Saudi Arabia's pharmaceuticals import bill.

Saudi Arabia has more than 4,600 registered drugs, both generic and patented. Many of the generic drugs are manufactured locally under license. There are around 200 local pharmaceutical companies registered with the Saudi Ministry of Health, and 20 of these local companies control close to 70 percent of the market.

Opportunities

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U.S. firms could find their best opportunities in joint ventures with local partners or licensing arrangements, in addition to the supply of raw material to the local pharmaceutical industry.

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FURNITURE (FUR)

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The Saudi Arabian market for furniture is the largest in the Middle East in terms of volume and dollar value. The market is estimated at more than half a million U.S. dollars, with U.S. manufacturers supplying one-fifth of the import market. In recent years, however, many American brand names have set up shop in China, Malaysia, or Thailand availing of cheap labor and material. As such, almost 25 percent of the U.S. share was eroded by cheaper imports from one or a combination of these countries in spite of the fact that some of these imports were U.S. brands manufactured under license.

Other country suppliers that are also gaining a foothold in the household furniture market include Turkey, Italy, and lately France. Roche Bobois was the latest addition to the Saudi furniture market.

Opportunities

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It has been customary for Saudi households to either replace or re-upholster their living room and dining room furniture at least once a year. This is usually done before one of the two main religious holidays, i.e. Eid Al-Fitr and/or Eid Al-Adha. The timing of these holidays is dictated by the lunar calendar and therefore changes from year to year.

FRANCHISING (FRA)

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Over the past five years, franchising has tremendously grown in Saudi Arabia. The success of American, European and local franchisers continue to attract Saudi business people. Many of the brand names are already well entrenched in the market, and the concept has proven to have a low failure rate for Saudi business people. Saudi entrepreneurs generally have sufficient capital and a desire to own their own business, but are hesitant to strike out on their own with a totally new operation or idea, creating a good potential for franchising.

Even though there are no figures revealing the size of this lucrative market, industry sources stated that fast food franchises account for more than 60 percent of the total franchise market. American firms have the lion share with more than 70 percent of all franchised operations in Saudi Arabia, from fast food outlets and hotels, to car leasing, laundry services and printing. Saudi consumers have increasingly become sophisticated demanding quality, service and value for money. American products and services in this industry have established brand recognition and were able to attract and retain a large section of the Saudi population.

Saudi demographics also enhance the viability of this concept among the more younger segment of the population. Almost half of Saudi population is under the age of 15, and franchisees have focused on this age group to sell in this market.

Some of the franchises that are currently present in Saudi Arabia include McDonalds, Hardee's, Burger King, Popeye's, Chillies, TGI, Fuddruckers, Pizza Hut, XOXO, Harvey Nichols, Debenhams, Saks Fifth Avenue, Floresheim, Martinizing, Sheraton, Hilton, Four Seasons, Avis, Hertz, Budget, Limited Too, Mail Boxes, Alphagraphics, Ann Kleine, Next, and Guess among many others.

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INSURANCE SERVICES (INS)

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Under the new insurance law, the National Company for Cooperative Insurance became the first licensed company to sell insurance policies in Saudi Arabia. In late December 2004, fifty percent of NCCI shares were offered to the public. As of December 2004, 66 insurance companies have submitted letters of intent to the Saudi Arabian Monetary Agency (SAMA) for a license to operate in Saudi Arabia. The regulations will require insurance companies a minimum capitalization of \$26 million to be licensed and operate in the market.

The adoption of the new insurance law is expected to boost the market, which has a potential to generate close to one billion dollars in premiums annually and increasing by an average eight to 10 percent every year.

Medical insurance premiums are expected to reach the \$5 billion mark over the next five years, as medical coverage will extend to Saudi nationals working in the private sector. SAMA expects to implement the decision in February 2005.

Car insurance will also be a sector with tremendous growth as a result of the mandatory insurance regulation on driving licenses that was imposed in 2002. Since then, premiums have grown astronomically by 126 percent reaching \$165 million in 2003.

Industry sources expect the insurance sector contribution to GDP to increase from 0.7 percent to 3.7 percent in 2005.

Agricultural Sectors

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The Kingdom is the largest and fastest growing market for high value (retail packed) foodstuffs in the Arabian Gulf. In CY 2003, total U.S. high value foodstuff exports to Saudi Arabia reached \$121 million, an increase of 13 percent compared to 2002. With the exception of very limited non-tariff barriers, foodstuffs are imported freely. The main regulatory barriers that U.S. foodstuff exporters encounter are: biotech labeling, shorter shelf life requirements compared to U.S. standards, strict production and expiration date regulations, Arabic labeling, Halal Slaughtering (animal slaughtering requirements according to Islamic Law) and animal feed and hormone free requirements for imported beef and poultry meat. Detailed information on the aforementioned requirements can be obtained by contacting the USDA's Foreign Agricultural Service (FAS) in Riyadh at the following coordinates:

FAS Riyadh
Email: Agriyadh@usda.gov,
Tel: 966-1-488-3800 Ext. 4058
Fax: 966-1-482-4364

CORN (0440000)

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Corn is used principally in poultry feeding and to a lesser extent in livestock rations. The Saudi Agricultural Development Bank has continued financing the establishments of new poultry farms in various regions of the country and large to medium-sized poultry producers have been expanding in recent years, increasing the country's self-sufficiency level to about 55 percent in 2004. U.S. corn exports to Saudi Arabia decreased by 61 percent in 2003 compared to 2002. The decline was mainly due to the availability of more competitively priced imports from Argentina and Brazil. Trade sources expect U.S. corn exports to regain market share in the near future, especially if the price gap between U.S. and Latin America corn decreases.

Description/Year	2002	2003	2004 (estimated)
Total Consumption	145	151	157
Total Local Production	1	1	1
Total Exports	0	0	0
Total Imports	144	150	156
Imports from the U.S.	51	20	25

Unofficial Estimates

SOYBEAN MEAL (0813100)

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Soybean meal is used principally in poultry feed and to a lesser extent in livestock rations. The continued expansion in local poultry production has increased the demand for soybean meal by more than five percent per annum in recent years. However, huge price difference between Latin American (Brazilian & Argentinean) and U.S. soybean meal has made imports from the United States less competitive in the past four years. U.S. soybean meal imports decreased from \$49 million in 2002, to 19 million in 2003, a decreased of 61 percent. As with corn, U.S. exports of soybean meal are expected to recover in the next couple of years due to anticipated improvement in the price competitiveness of U.S. soybean meal.

Description/Year	2002	2003	2004 (estimated)
Total Consumption	113	126	132
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	113	126	132
Imports from the U.S.	49	19	29

Unofficial Estimates

RICE (0422110)

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The United States has remained the second largest rice supplier to the Kingdom (followed by Pakistan & Thailand). According to U.S. customs data, U.S. rice exports increased by 12 percent from \$33 million in 2002 to \$36 million in 2003. Trade sources indicate a significant increase in U.S. rice exports to the Kingdom over the next two years due to the expected sharp price increases in Indian rice in the wake of the recent powerful earthquake, which unleashed a Tsunami across South East Asian countries including India, the dominant rice supplier to the Kingdom. Since the past several years, India has dominated the Kingdom's rice market by supplying more than 60 percent of the market.

Description/Year	2002	2003	2004 (estimated)
Total Consumption	319	359	373
Total Local Production	0	0	0
Total Exports	5	5	5
Total Imports	324	364	378
Imports from the U.S.	33	36	42

Unofficial Estimates

PROCESSED FRUITS AND VEGETABLES

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The Saudi market for processed fruits and vegetables is huge. The growth of supermarket food sales is helping to broaden the market for this sector and good market growth is expected to continue as supermarkets open more outlets in major cities of the Kingdom. Local production of canned fruit and vegetables has been increasing in recent years. However, insufficient local fruit and vegetable output and high costs related to importing them for use in local processing suggest that a significant demand for processed fruits and vegetables will continue to be met by imports. Date processing and packaging account for about 60 percent of the total local processed fruit production.

Description/Year	2002	2003	2004 (estimated)
Total Consumption	462	475	490
Total Local Production	263*	268*	274
Total Exports	5	5	5
Total Imports	204	212	221
Imports from the U.S.	25	26	28

Unofficial Estimates; * No Official Figures

SNACK FOODS (EXCLUDING NUTS)

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The latest official figures indicated that more than 60 percent of the Saudi population is in their teens and major consumers of snack foods. Local snack food production has drastically increased in the past few years, accounting for more than 50 percent of local consumption in 2003 according to information provided by trade contacts. There is a general decline in the importation of corn & wheat-based snacks. Candies and chocolates are also being locally manufactured on a large scale. Exporters may also look into supplying raw materials for the fast growing snack industry. Snack food imports from the U.S. accounted for 10 percent of total imports in 2003. Products catering to Saudi consumers' preferences, which tend to favor sweeter items, generally find better market reception.

Description/Year	2002	2003	2004 (estimated)
Total Consumption	331	383	345
Total Local Production	177	183	190
Total Exports	5	5	5
Total Imports	159	205	400
Imports from the U.S.	20	21	20

Unofficial Estimates

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Import Tariffs

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Effective May 29, 2001, the Saudi Government reduced the general import tariff rate from 12 percent to 5 percent. Almost all Saudi imports fall into this category, although a number of Saudi "infant industries", including furniture, cooking salt, mineral water, and plastic pipes will continue to enjoy 20 percent tariff protection. Cigarettes, wheat, flour, dates, and long-life milk imports have a 100 percent tariff.

Trade Barriers

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Saudi Arabia is currently seeking membership in the World Trade Organization (WTO). Once Saudi Arabia is admitted, the country's trade regime should become more transparent and more accommodating to non-Saudi businesses.

As of the date of this report, Saudi business and laws still favor Saudi citizens, and Saudi Arabia still has trade barriers, mainly regulatory and bureaucratic practices, which restrict the level of trade and investment.

For example, only Saudi nationals are permitted to engage in trading activities and only Saudis are permitted to register as commercial agents. All industrial enterprises are open to non-Saudis, and they can also trade in the products they manufacture. Restrictions on individual professions also are in force, such as who can practice law, medicine, accounting and financial services, and other similar professions.

Other trade barriers are:

Commercial Disputes Settlements: Saudi Arabia signed the New York Convention on foreign arbitration awards in 1995. While this is an encouraging step, the enforcement of foreign arbitration awards has yet to be upheld in practice. Government agencies are not allowed to agree to international arbitration without approval from the Council of Ministers, which, we understand, is rarely granted.

Business Visas: All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia. The Saudi who agrees to act as a sponsor accepts certain legal obligations including personal liability for the actions of the visitor. Therefore, a Saudi rarely assumes sponsorship unless he has a personal interest in the proposed visit.

In practice, this makes it very difficult for an American businessperson to visit Saudi Arabia to investigate the market or to select a local representative without incurring some obligation to his sponsor, e.g., the right of first refusal on any business opportunity developed. Although the process of obtaining a visa has been streamlined, naturalized American citizens of Arab descent and women continue to experience difficulties in procuring business visas, even when they have a sponsor. The Saudi Arabian Government has indicated that U.S. citizens of the Jewish faith as well as U.S. citizens with an Israeli exit and entry stamp will face no difficulty in getting a visa to visit Saudi Arabia.

Investors or potential investors wishing to visit Saudi Arabia must also have a Saudi sponsor to obtain the necessary business visa. On rare occasions the Saudi Embassy or Consulates may grant, at their discretion, sponsorless business visas to employees of prominent American firms, but this practice is unpredictable. Most business visas are valid for only one entry for a period of up to three months.

Delayed Payments: This can be an important concern for affected U.S. companies. Although some Saudi Government agencies as well as some companies still have outstanding debts. The Saudi Government, however, is keen to resolve any payment disputes and has reduced its arrearages for the last couple years. Nonetheless, the problem persists, and U.S. companies should check with the U.S. Embassy or Consulates for information on the current arrearage situation.

Due to accounting procedures used by the Saudi Government, the Department of Zakat and Income Tax imposes taxes even on payments that have not been received, arguing that the fact of non-payment is essentially immaterial in the tax liability determination process.

Intellectual Property Protection: The Saudi legal system protects and facilitates acquisition and disposition of all property rights, including intellectual property. The Saudi Government has acceded to the Universal Copyright Convention; implementation began in 1994. The Saudi Copyright Law was amended in June 2003 to improve protection and to provide for serious deterrent penalties for violators. The government also endorsed the country's joining the "Paris Convention for Protection of Industrial Property" and the "Berne Convention for the Protection of Literary and Artistic Works".

The Saudi Government has taken actions to enforce copyrights of U.S. and foreign firms, and pirated material has been seized or forced off the shelves of a number of stores. To uphold the Government actions in fighting piracy, the highest religious authority in Saudi Arabia has condemned software piracy in a "Fatwa", a religious edict. Though intellectual property protection has steadily increased in the Kingdom, piracy remains a problem.

Saudi Arabia has had a Patent Law since 1989 and the Patent Office accepts applications, but the number of patents issued remains limited. Protection is available for product and product-by-process. Product-by-process protection is extended to pharmaceuticals, but is almost non-existent. There are provisions in the Patent Law for compulsory licenses for non-working and dependent patents. The term of protection is 15 years. The patent holder may apply for a five-year extension. In its first decision, the Patent Committee ruled in favor of patent protection for an American pharmaceutical company, which had applied and registered for a Saudi patent, even though the patent had not yet been granted. U.S. pharmaceutical companies should apply to the Saudi Patent Office at King AbdulAziz City for Science and Technology (KACST) and the GCC Patent Office to protect their products.

Trademarks are protected under the Trademark Law, which was updated in 2002. Trade secrets are not specifically protected under any area of Saudi law; however, they are often protected by contract. The Unfair Competition Law, which has not yet been issued, should protect trade secrets. Also under government review is a law to provide protection for industrial designs, plant varieties, and integrated circuits. Several of these issues are being taken up in connection with Saudi Arabia's application to become a member of the WTO.

U.S. firms that wish to sell products in Saudi Arabia should work through their local representative to register their trademarks with the Ministry of Commerce, copyrighted products with the Ministry of Information, and patents with KACST or the GCC Patent Office. Although these government entities are responsible for IPR protection in their respective areas, any reported incident of piracy or infringement may not entail immediate and decisive action by the concerned government entity.

Counterfeiting: Manufacturers of consumer products and automobile spare parts are particularly concerned about the widespread availability of counterfeit products in Saudi Arabia. Anti-counterfeiting laws exist, and the U.S. Government has urged the Saudi authorities to step up enforcement actions against perpetrators. In some popular consumer goods, manufacturers estimate that as much as 50 percent of the entire Saudi market is counterfeit.

Arab League Boycott: The Gulf Cooperation Council (Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates) announced in the fall of 1994 that its members would no longer enforce the secondary and tertiary aspects of the Arab League Boycott. The primary boycott against Israeli companies and products still applies. Advice on boycott and anti-boycott related matters is available from the U.S. Embassy or from the Office of Anti-Boycott Compliance in Washington, D.C., at phone: (202) 482-2381.

Saudi non-tariff barriers include: preferences for national and GCC products in government procurement; a requirement that foreign contractors obtain their imported goods and services exclusively through Saudi agents; and the economic offset requirement mandating reinvestment of a portion of contract value in indigenous industries for certain high value government contracts, particularly in defense.

Import Requirements and Documentation

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There are no special import provisions. Unusual cases should be worked out on a case-by-case basis with Saudi Customs. The following documents are required for exporting goods to Saudi Arabia (Documents need to be certified by the U.S.-Saudi Business Council and the Saudi Embassy/Consulate):

- Certificate of origin;
- Commercial invoice (in triplicate) which must state the country of origin, name of the carrier, brand and number of goods, and description of the goods including weight and value;
- A clean bill of lading or airway bill;
- Documents indicating compliance with health regulations, if applicable;
- Insurance documents if shipments are sent CIF; and,
- Packing list.

The original documents must be accompanied by an Arabic translation of a radiation certificate, if applicable. In late 1997, the Saudi Embassy in Washington advised U.S. traders to obtain authentication of certificates of origin and other necessary documents through the U.S.-Saudi Business Council, which has certification offices in Washington, New York, Houston, and Los Angeles. Further information can be found on the U.S.-Saudi Business council website: www.us-saudi-business.org

Saudi exporters need to submit a copy of their commercial registration, which indicates they are allowed to export. They are also required to submit a certificate of origin of Saudi products (issued by the Ministry of Commerce and Industry). Certain items such as antiques, Arabian horses, livestock, or subsidized items need special approval to export. Exports of oil, petroleum products, natural gas and wheat all require export licenses.

U.S. Export Controls

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In the area of export control policy and regulation, the [Bureau of Industry and Security](#) (BIS) is charged with the implementation of U.S. export control policy on dual-use commodities, software, and technology.

Sale of arms and ammunitions is managed through a Foreign Military Sales (FMS) program of the U.S. Department of Defense. The U.S. Military Training Mission (USMTM) established at Dhahran in 1953 (now located in Riyadh) provides training, advice and assistance to the Saudi Ministry of Defense and Aviation in a variety of areas, including the management of the Kingdom's Foreign Military Sales (FMS).

Temporary Entry

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For temporary entry of goods for promotional purposes, imports need an invoice with the value of the goods endorsed by the U.S.-Saudi Business Council, and a certificate of origin. The invoice should state that the goods are being imported for exhibition purposes only and will be re-exported.

Saudi Customs requires a deposit for these goods (equivalent to the tariff rate -- either 5% or 20% of the total value). This deposit is refundable when the exhibition is over and upon showing a document that the owner of the equipment officially participated in a trade show. Additionally, the customs authorities will collect handling charges. Reimbursement takes between two to four weeks.

Labeling and Marking Requirements

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Labeling and marking requirements are compulsory for any products exported to Saudi Arabia. The Saudi Arabian Standards Organization (SASO) is responsible for establishing labeling and other guidelines in Saudi Arabia. The Ministry of Commerce and Industry implements SASO guidelines through its inspection and test laboratories at ports of entry in Saudi Arabia.

Labeling is particularly important for companies marketing food products, personal care products, health care products, and pharmaceuticals. SASO has specific requirements for identifying marks and labels for various imported items. Labels must be in Arabic for any imported foodstuff item, which should basically reveal the same information on the container as in the foreign language, i.e. ingredients, country of origin, manufacturer, shelf life, instructions for use, etc. New labeling standards went into effect in December 2001 requesting companies to declare whether their products contain genetically modified ingredients. Companies can request a copy of the labeling requirements by contacting SASO at Tel: (966 1) 452-0000 or Fax: (966 1) 456-9977. Arabic manuals must be included with any household electrical appliances exported to Saudi Arabia.

Quality control laboratories at ports of entry may reject products that are in violation of existing laws. Products arriving at port having less than one-half of the time remaining between production and expiration date will be rejected and cannot be sold on the market. U.S. manufacturers are urged to discuss labeling requirements with their selected representative or distributor.

Prohibited and Restricted Imports

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The importation of certain articles is either prohibited or requires special approval from competent authorities. In addition, importing the following products requires special approval by Saudi authorities: agricultural seeds; live animals and fresh and frozen meat; books, periodicals, movies, and tapes; religious books and tapes; chemicals and harmful materials; pharmaceutical products; wireless equipment; horses; products containing alcohol (e.g., perfume); natural asphalt; and archaeological artifacts.

There are health and sanitation regulations for all imported foods. The Ministry of Commerce and Industry has issued a number of directives aimed at preventing outdated goods from entering the Kingdom and requiring Arabic and point of origin labeling. In addition, a directive mandating labeling of GMO food has been recently adopted.

Saudi law prohibits importation of the following products: weapons, alcohol, narcotics, pork, pornographic materials, distillery equipment, and certain sculptures.

Customs Regulations and Contact Information

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The Department of Customs at the Ministry of Finance appraises all merchandise moving through Saudi customs ports.

Import valuation is primarily used for collection of import duties and often does not reflect the actual transaction value. Saudi customs valuation procedures are not WTO-consistent, nor are they based on invoice value. Minimum prices are used, and customs agents rely on their own experience and local prices, as well as some contact with manufacturers, to assess import tariffs. For statistical purposes, the valuation of imported merchandise is the Cost-Insurance-Freight (CIF) value. The value of exported merchandise is based on Free On Board valuation (FOB). The Saudi tariff nomenclature is consistent with the Harmonized System. There does not seem to be a significant body of rule making or documentation available. Appeals are frequently made orally, and an appeals committee, under the Deputy Director General of Customs, meets frequently.

Although Saudi Arabia is a member of the Customs Coordination Council, Saudi Customs officers do not have the authority to do investigative work on business premises; nor do they have enforcement powers. These powers are vested in the Ministry of Interior.

The U.S. Government, through a reimbursable arrangement with the Saudi Government, is working with Saudi authorities to upgrade customs valuation procedures. This is particularly important in connection with Saudi Arabia's bid to accede to the WTO.

Saudi Arabian Department of Customs
Contact: Mr. Saleh Al-Barrak, Director General
P.O. Box 3483, Riyadh 11471, Saudi Arabia
Phone: (966 1) 401-3334, Fax: (966 1) 404-3412

Standards

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Overview

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The Saudi Arabian Standards Organization (SASO) has over 2,030 SASO and 1,060 Gulf promulgated standards, and is actively pursuing the promulgation of hundreds of new standards currently in various drafting stages of development. SASO has decided to adopt ISO 9000 as the approved standards for Saudi Arabia, and will act as an

accreditation body through the Quality Assurance Department. Compliance will be on a voluntary basis. However, it would be prudent for U.S. industry and services to consider this matter seriously in planning to do business in Saudi Arabia. There may be many cases where procurement agencies will insist on purchasing and placing orders only with those companies that are in compliance with ISO 9000, or the U.S. equivalent series.

Saudi Arabia is the most influential member of the Gulf Cooperation Council (GCC), which includes five other countries in the Arabian Peninsula: United Arab Emirates, Kuwait, Bahrain, Oman, and Qatar. As a group, the GCC is striving to create a common set of food standards, with the Saudi Arabian Standards Organization (SASO) as the lead agency.

Although SASO has an advisory, rather than executive role, it coordinates its activities among different executing agencies in the Kingdom to control product quality and standards. SASO has issued about 600 production and testing standards on food since its establishment in 1972 and is presently working on new standards. Saudi standards are based mainly on CODEX Alimentarius regulations and to some extent on European and U.S. standards but modified to reflect local conditions. Saudi Arabia's residential electric power system of 127/220 volts, 60 Hertz, is unique and has caused export problems for many American firms. However, SASO will accept electrical products as low as 120 volts, 60 Hertz.

Standards Organizations

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The Saudi Arabian Standards Organization is the only Saudi Arabian entity that is in charge of developing and implementing standards. SASO is the only Saudi organization responsible for setting national standards for commodities and products, measurements, testing methods, meteorological symbols and terminology, commodity definitions, safety measures, and environmental testing, as well as other subjects approved by the organization's Board of Directors.

While standards are set by SASO, the Saudi Ministry of Commerce and Industry Laboratories do testing of all processed and packaged food items at various ports of entry. The Saudi Ministry of Municipality and Rural Affairs' Environmental Control Department tests foodstuffs at the point of sale for product safety standards. As of the date of this report, SASO officials would not comment on their annual plan they intend to develop in 2005.

Conformity Assessment

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Since its inception in 1995, the certification program known as the ICCP was applicable to 69 regulated products. The purpose of the program was to insure consumer protection and that products entering Saudi Arabia conform to SASO standards. SASO was in charge of implementing and monitoring the International Conformity Certification Program (ICCP). They have done so through an agreement with Intertek, which has global presence.

As of September 1, 2004, the Ministry of Commerce and Industry will have responsibility for the ICCP program under the jurisdiction of Mr. Hamad Al-Oufi, Director General for Quality Control & Inspection, and who can be reached at (966 1)

401-1265, Fax: (966 1) 402-2539. Intertek is still technically involved but this may change as the new regulations may allow an "authorized body/entity" in the country of origin to examine and certify consumer goods bound for Saudi Arabia.

One of the major changes of the new ICCP mandates that a Certificate of Conformity must accompany all consumer goods exported to Saudi Arabia. This is the major change from the old ICCP, which only applied to 67 products. Exceptions include Food products, Medical products including medicines, Medical equipment, and components/products of large industrial projects.

Product Certification

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In Saudi Arabia, SASO will set up its own certification organization for locally manufactured products, as several SASO employees have been certified to work as professional auditors in conformance with ISO 9000 series standards. For imported products, the Ministry of Commerce and Industry will implement the ICCP program.

Accreditation

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SASO is the only Saudi entity that is empowered to accredit.

Publication of Technical Regulations

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Oum Al-Qura is the official gazette, and final regulations are published. A standards representative was assigned to SASO from the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) to advise the Saudi Government in developing standards and work to insure that new standards are consistent with those in the United States. As of August 2004, NIST has abolished this position, although other developed nations will still maintain similar programs at SASO.

Labeling and Marking

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Labeling and expiration date requirements are stringent and present an export impediment for U.S. fresh eggs and bottled baby food products.

Labeling and marking requirements are compulsory for any products exported to Saudi Arabia. The Saudi Arabian Standards Organization (SASO) is responsible for establishing labeling and other guidelines in Saudi Arabia. The Ministry of Commerce and Industry implements SASO guidelines through its inspection and test laboratories at ports of entry in Saudi Arabia.

Labeling is particularly important for companies marketing food products, personal care products, health care products, and pharmaceuticals. SASO has specific requirements for identifying marks and labels for various imported items. Labels must be in Arabic for any imported foodstuff item, which should basically reveal the same information on the container as in the foreign language, i.e. ingredients, country of origin, manufacturer, shelf life, instructions for use, etc. New labeling standards went into effect in December 2001 requesting companies to declare whether their products contain genetically modified ingredients. Companies can request a copy of the labeling requirements by contacting SASO at Tel: (966 1) 452-0132 or Fax: (966 1)

452-0196. Arabic manuals must be included with any household electrical appliances exported to Saudi Arabia.

Quality control laboratories at ports of entry may reject products that are in violation of existing laws. Products arriving at port having less than one-half of the time remaining between production and expiration date will be rejected and cannot be sold on the market. U.S. manufacturers are urged to discuss labeling requirements with their selected representative or distributor.

Trade Agreements

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Saudi Arabia is a member of the Gulf Cooperation Council (GCC), which consists of Kuwait, Qatar, Bahrain, the UAE, Oman, and Saudi Arabia. Membership confers special trade and investment privileges within those countries. The GCC implemented a Customs Union on January 1, 2003 that stipulates free movement of local goods within member states. Leaders of the GCC have approved to allow Yemen gradual entry into their Council. The member states also agreed that they would switch to a single currency by January 1, 2010 at the latest, a common market in 2007, and a monetary union in 2005. Saudi Arabia is also a member of the Arab League. Recently, Arab League states have agreed to negotiate an Arab Free Trade Zone.

As of mid-2003, the United States had signed TIFA agreement with Saudi Arabia. TIFAs are typically the initial fora for ongoing dialogue between the U.S. and Saudi Governments on economic reform and trade liberalization. The agreement promotes the establishment of legal protections for investors, improvements in intellectual property protection, more transparent and efficient customs procedures, and greater transparency in government and commercial regulations.

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Openness to Foreign Investment

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The Saudi Government encourages foreign direct investment and is undertaking steps to improve the investment climate, most notably through the adoption of new capital market and insurance company control laws in 2003, and revisions to the tax code reducing taxes on foreign-owned capital. Improvement of the investment climate is an important part of the Government's broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil and petrochemicals, and join the World Trade Organization (WTO). The Government encourages investment in infrastructure, including power, water, telecommunications and transportation, but has yet to make such investments financially attractive to foreign investors.

Prospective investors will find attractive Saudi Arabia's economic stability, the largest market in the Gulf (with a population of over 24 million), sound infrastructure, a well-regulated banking system and relatively high per capita income. There are also disincentives to investment, specifically, the absence of accurate economic data, a government requirement that companies hire Saudi nationals, slow payment of some government contracts, an increasingly restrictive visa policy for all workers, a very conservative cultural environment, enforced segregation of the sexes in most business and social settings. The government must take steps to ensure that there is a transparent, comprehensive legal framework in place for resolving commercial disputes. Prospective foreign investors want convenient access to multiple entry-exit visas without the need for a Saudi sponsor, standardized treatment for corporate taxes, access to a skilled, motivated labor force, state-of-the-art telecommunications, and protection of intellectual property rights that meets international standards.

The foreign direct investment law, revised in 2000, permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list" that are off limits to foreign investors. Foreign investors are no longer required to take local partners and may own real estate property for company activities. They are allowed to transfer money from their enterprises outside of the country and can sponsor their foreign employees. They are also eligible for low-cost funding from the Saudi Industrial Development Fund (SIDF) for up to 50 percent of a project. The new foreign investment law also established minimum levels of investment for agricultural projects (\$6.67 million), industrial projects (\$1.33 million), and non-industrial projects (\$0.53 million).

In April 2000, the Council of Ministers established the Saudi Arabian General Investment Authority (SAGIA) to provide information and assistance to foreign investors. The Authority operates under the umbrella of the Supreme Economic Council and is headed by SAGIA Governor Amr Al Dabbagh. SAGIA's duties include formulating government policies regarding investment activities; proposing plans and regulations to enhance the investment climate in the country; and evaluating and licensing investment proposals. All foreign investment projects must obtain a license from SAGIA. Local investors continue to apply to the Ministry of Commerce and Industry's foreign capital investment committee for licenses.

SAGIA set up an Investor's Service Center (ISC) to provide licenses to foreign companies, provide support services to investment projects, offer detailed information on the investment process, and coordinate with government ministries in order to facilitate investment procedures. The ISC must decide to grant or refuse a license within 30 days of receiving the application and supporting documentation from the investor. Through September 2004, SAGIA has issued 2,449 licenses for projects worth a total of \$15.9 billion. Of these, 1,686 projects valued at \$10.5 billion are 100 percent foreign-owned. Unfortunately, to date SAGIA does not appear to have lived up to the high expectations engendered by its creation. Investors complain that impediments remain, many outside SAGIA's capability to correct. SAGIA is trying to make it easier for businessmen to visit the Kingdom and is able to provide sponsorship for visa requests directly without having to ask a local company to sponsor such visits. Local companies that sponsor visiting businesspeople need to have the Saudi Chamber of Commerce authenticate the sponsor letter prior to the visa being granted. SAGIA opened a Women's Investment Center in spring 2003.

In February 2001, SAGIA developed a negative list of sectors off-limits to foreign investment. The sectors currently closed to foreign investment include three manufacturing categories and 16 service industries. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, some subsectors of telecommunications, audiovisual and media services, distribution services in wholesale and retail trade, land and air transportation services, fisheries and toxic centers, blood banks, and quarantines. Although these sectors are off-limits to 100 percent foreign investment, foreign minority ownership in joint ventures with Saudi partners may be allowed in some sectors. Insurance and telecommunications sectors were opened to foreign investors in 2004.

Other government bodies, such as the Royal Commission for Jubail and Yanbu, and the Arriyadh Development Authority, have also been active in promoting opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority

government-owned Saudi Arabian Basic Industries Corporation (SABIC), private investment companies, such as the National Industrialization Company, the Saudi Venture Capital Group, and the Saudi Industrial Development Company have also become increasingly active in project development and in seeking out foreign joint venture partners.

The Saudi Industrial Development Fund (SIDF) is an important source of financing for investors. SIDF is a development finance institution affiliated with the Ministry of Finance. The main objective of SIDF is to support the development of the private industrial sector by extending medium to long-term loans for the establishment of new factories and the expansion, upgrading and modernization of existing ones. Foreign investors are eligible to receive low cost financing for up to 50 percent of project costs (i.e., fixed assets, pre-operating expenses and start-up working capital). Loans are provided for a maximum term of 15 years with repayment schedules designed to match projected cash flows for the project in question.

The national oil company, Saudi Aramco, presently conducts all oil exploration and development. In July 2003, the Ministry of Petroleum announced an auction to open up part of the Ghawar area to foreign investors for non-associated natural gas exploration. In January 2004, six companies competed in the auction for the three offered blocks. Russia's Lukoil, China's Sinopec, and a joint bid by Italy's Eni and Spain's Repsol, each won a block and signed 40-year exploration and production contracts with the Saudi Minister of Petroleum in March 2004. The deals signed in 2003 and 2004 mark the first time since the total nationalization of ARAMCO in 1980 that foreign oil companies have been permitted to explore in Saudi Arabia. Foreign investment in the full upstream hydrocarbon sector will be vital in the coming decades if Saudi Arabia hopes to expand production capacity to meet expected growth in international demand. The greatest foreign investment in Saudi Arabia is found in downstream energy – particularly in oil refining and petrochemicals. Exxon Mobil, Shell, and Chevron Texaco are the largest investors in the Kingdom. These firms, as well as other international investors, have formed joint ventures with the parastatal Saudi Arabian Basic Industries Corporation (SABIC) to build world-scale petrochemical plants based on low-cost ARAMCO gas feedstock.

The government uses its purchasing power to encourage foreign investment. In 1985, the Saudi Government reached an agreement with American defense contractors for "offset" joint venture investments equivalent to 35 percent of the program's value. British and French defense firms also have offset requirements. Offset requirements are likely to remain components of major defense purchases and have been incorporated into other large Saudi Government contracts.

Joint ventures almost always take the form of limited liability partnerships. There are, however, disadvantages. Foreign partners in service and contracting ventures organized as limited liability partnerships must pay in cash or kind 100 percent of their contribution to authorized capital and are subject to the minimum investment levels outlined by SAGIA. SAGIA's authorization is only the first step for setting up such a partnership.

Still, foreign investment is generally welcome in Saudi Arabia if it promotes economic development, transfers foreign expertise to Saudi Arabia, creates jobs for Saudis, and expands Saudi exports.

Industrial projects normally require at least 25 percent capitalization, although it may be higher for some industries. Additionally, 10 percent of profits must be set aside each year in a statutory reserve until it equals 50 percent of the venture's authorized capital.

Professionals, including architects, consultants, and consulting engineers, are required to register with and be certified by the Ministry of Commerce and Industry in accordance with the requirements defined in the Ministry's Resolution 264, published in 1982. These regulations, in theory, permit the registration of Saudi-foreign joint venture consulting firms. However, according to business sources, the regulations have never been fully implemented. As a result, some foreign consulting firms work as adjuncts to established Saudi firms.

In early summer 2002, the Supreme Economic Council announced the approval of a privatization strategy that outlined the procedures of privatization, sectors to be offered to domestic and foreign investors, and a timetable to transfer certain public services to the private sector. The services include: water and drainage; saline water desalination; telecommunications; mining; power; air transportation and related services; railways; some sectors of roadways; post services; flour mills and silos; seaport services; industrial cities services; government portions of SABIC, banks, and local refineries; government hotels; sports clubs; some municipality services; some educational services; some social services; some agricultural services; and some health services. The Government plans to sell public shares in some parastatals and to privatize other services on the basis of a build-operate-transfer (BOT) or build-operate-own strategy.

STC floated a minority stake (approximately 20%) on the stock market in January 2003, netting the Saudi Government close to \$4 billion in proceeds. Shares in the formerly state-owned National Company for Cooperative Insurance (NCCI) were offered to the public in late December 2004.

In July 2003, the government took significant, long-awaited steps to lower the corporate tax rate on foreign investors to a flat 20%; however, separate rates will apply to investments in natural gas and in the oil and hydrocarbon production. The new rate replaces a tiered system that went as high as 45%. While this is a welcome step toward a more balanced treatment for foreign and Saudi owned capital, there are privileges and preferences in Saudi Arabia that favor Saudi companies and joint ventures with Saudi participation. For example, domestic corporate partners do not pay corporate income tax, but are subject to a 2.5 percent tax on net current assets, or "Zakat".

Limited liability companies with at least 50 percent Saudi equity receive preferences for public sector tenders. Companies or citizens from Gulf Cooperation Council (GCC) countries (Saudi Arabia, Kuwait, Bahrain, Qatar, UAE, and Oman) may currently own land or engage in internal trading and distribution activities. Similarly, only joint ventures with at least 51 percent GCC ownership interest are permitted to export duty-free to other GCC countries.

Taken together, these conditions represent an array of factors that can disadvantage a foreign investor attempting to operate his wholly owned company in Saudi Arabia. Conditions are expected to improve, as SAGIA becomes more engaged in identifying

and reducing barriers to foreign investment. The government did announce in early 2002 that it would ease restrictions on the issuance of visas to foreign businessmen to allow greater access to Saudi Arabia. The formerly common practice of Saudis illegally lending their names to a foreign-owned and operated business, so-called "cover-ups," was curtailed by Royal Decree M/49 of May 21, 1989. Saudis and foreigners who engage in such cover-ups to evade Saudi commercial regulations are now subject to severe penalties, including imprisonment, stiff fines, and deportation for the foreigner.

While, theoretically, American and other foreign firms are able to participate in Saudi government-financed and/or government-subsidized research and development programs on a national treatment basis, the Embassy is not aware of any examples.

Conversion and Transfer Policies

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There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency at a legal market-clearing rate. There have been no recent changes, nor are there plans to change remittance policies. There are no delays in effect for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, imported inputs, etc. Since 1986, when the last devaluation occurred, the official exchange rate has been 3.745 Saudi Riyals per U.S. dollar. Transactions occur using rates very close to the official rate. The Saudi Arabian Monetary Agency (SAMA) has intervened at times to keep the exchange rate fixed.

Expropriation and Compensation

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The Embassy is not aware of the Saudi Government ever expropriating property. There have been no expropriating actions in the recent past or policy shifts that would lead the Embassy to believe there may be such actions in the near future.

Dispute Settlement

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Saudi commercial law is still developing, but in 1994 the Saudis took the positive step of joining the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. However, dispute settlement in Saudi Arabia continues to be time-consuming and uncertain. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take years.

The Embassy suggests that American firms investing in Saudi Arabia include in contracts a foreign arbitration clause. Such clauses are not, however, allowed in government contracts without a decision by the Saudi Council of Ministers.

Saudi litigants have an advantage over foreign parties in almost any investment dispute because of their first-hand knowledge of Saudi law and culture and the relatively amorphous dispute settlement processes. Foreign partners involved in a dispute find it advisable to hire local attorneys with knowledge of Saudi legal practices. Many Saudi attorneys, in turn, retain non-Saudi (and particularly American) lawyers to facilitate the handling of disputes involving foreign investors.

In several cases, disputes have caused serious problems for foreign investors. For instance, Saudi partners have blocked foreigners' access to exit visas, forcing them to remain in Saudi Arabia against their will. In cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the country while awaiting police investigation or adjudication of the case. Courts can impose precautionary restraint of personal property pending the adjudication of a commercial dispute, according to Royal Decree No. M/4 of October 2, 1989. This decree has diminished the incentive for individuals to physically detain foreign partners pending the resolution of commercial disputes. It is very important that foreign investors take steps to protect themselves by thoroughly researching the business record of the proposed Saudi partner, retaining legal counsel, complying scrupulously with all legal steps in the investment process, and securing a well-drafted agreement.

The Government, due to past fiscal constraints, has in the past fallen into arrears on payments to private contractors, both Saudi and foreign. Some companies carried Saudi Government receivables for years before being paid. The Government appears committed to clearing remaining arrears, and almost 50 percent of the 2004 budget surplus was used to reduce public debt.

The Saudi legal system is derived from the legal rules of Islam known as the Shari'a. The Ministry of Justice oversees the Shari'a-based judicial system, but most Ministries have committees to rule on matters under their jurisdiction. Generally, the Board of Grievances has jurisdiction over disputes with the government and commercial disputes.

Of principal interest to investors who have disputes with private individuals are the Committees for Labor Disputes (under the Ministry of Labor), and the Committee for Tax Matters (under the Negotiable Instruments Committee, also called the Commercial Paper Committee). The Ministry of Finance has jurisdiction over disputes involving letters of credit and checks, while the Banking Disputes Committee of the Saudi Arabian Monetary Agency (SAMA) adjudicates disputes between bankers and their clients. Judgments of foreign courts are not yet accepted and enforced by Saudi courts. Saudi Arabia's signature of the New York convention has not yet changed this.

Monetary judgments are based on the terms of the contract; i.e., if the contract were in dollars, the judgment would be in dollars; if unspecified, the judgment is denominated in Saudi Riyals. Non-material damages and interest are not included in monetary judgments.

Saudi Arabia has written a commercial law that is generally applied consistently. The country has written a bankruptcy law that was enacted by Royal Decree no. N/16 dated 4/9/1416H (corresponding to 1/24/96). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees under the Saudi Chambers of Commerce and Industry or through the Board of Grievances.

Designated as the Regulation on Bankruptcy Protective Settlement, the law is open to ordinary creditors except in the case of debts of expenditures, privileged debts and debts, which arise pursuant to the settlement procedures. In 1994, Saudi Arabia joined the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Saudi Arabia is a member of the International Center for the Settlement of Investment Disputes (ICSID, also known as the Washington Convention).

Performance Requirements and Incentives

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Under the 1969 Labor and Workman Regulations, 75 percent of a firm's work force and 51 percent of its payroll must be Saudi, unless an exemption has been obtained from the Ministry of Labor. In practice, the percentage of Saudis is far less. The number of Saudis in the private sector labor force may be under 10 percent. More Saudis work in the public sector. In 1996, the Saudi Government implemented a regulation requiring each company employing over 20 workers to include a minimum of five percent Saudi nationals. This number increases by five percent per annum, and has now reached 40 percent of a firm's workforce.

Companies not complying with the Saudi minimum personnel rule will not be given visas for expatriate workers. Few firms have been able to meet these requirements. Foreign firms are under constant pressure to employ more Saudis. The list of jobs/positions that may no longer be held by non-Saudis is expanding.

Investors are not currently required to purchase from local sources or export a certain percentage of output and their access to foreign exchange is unlimited. There is no requirement that a share of foreign equity be reduced over time. The Government does not impose conditions on investment such as locating in a specific geographic area, a specific percentage of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. Investors are not required to disclose proprietary information to the Saudi government as part of the regulatory approval process.

Right to Private Ownership and Establishment

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Domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity. Private entities generally have the right to freely establish, acquire, and dispose of interests in business enterprises. Certain activities are reserved for state monopolies and Saudi citizens.

Protection of Property Rights

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The Saudi legal system protects and facilitates acquisition and disposition of private property, consistent with Islamic practice respecting private property. Non-Saudi corporate entities will be allowed to purchase real estate in Saudi Arabia according to the new foreign investment code although it is unclear how this policy is being implemented. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of U.S.-owned assets in the Kingdom.

Saudi Arabia is currently undertaking a comprehensive revision of its laws covering intellectual property rights, with an eye toward bringing them in line with the WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The revisions are being undertaken as part of Saudi Arabia's efforts to join the WTO, and are being promulgated in coordination with the World Intellectual Property Organization (WIPO). The Saudi Government recently updated their Trademark Law (2002) and Copyright Law (2003) with the dual goals of TRIPS-compliance and effective deterrence against violators.

The current patent law has been in effect since 1989. Largely due to a lack of adequate resources and technical expertise, the patent office has issued slightly more than 40 patents and has a large backlog of more than 9,000 applications. The office is seeking to streamline its procedures, hire more staff and reduce the backlog. Protection is available for product and product-by-process. The term of protection is 15 years, and the patent holder may apply for a routinely granted five-year extension. Pharmaceutical companies have complained of problems related to the terms of protection for their products when registering with the Ministry of Health.

The Saudi Government's commitment to patent protection is being tested in a case involving an American pharmaceutical firm and a Saudi firm making copycat products. The Saudi Arabian Patent Committee ruled in favor of the American firm's claim of patent infringement in February 2003, the newly established Patent Committee's first ruling. In November 2003, the Board of Grievances overturned this decision solely on the basis of Saudi legal strictures. A final appeal has been made to the Chairman of the Board of Grievances, and a decision is pending.

The Saudi Government has revised its Copyright Law, is devoting increased resources to marketplace enforcement, and is seeking to impose stricter penalties on copyright violators. The Saudi Government has stepped up its efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores. However, many pirated materials are still available in the marketplace. An Islamic ruling, or "fatwa," stating that software piracy is "forbidden" backs enforcement efforts. Saudi Arabia remains on the Special 301 Watch List.

Trademarks are protected under the Trademark Law. Currently, trade secrets are not specifically protected under any area of Saudi law, but they are often protected by contract. Saudi officials relate that the upcoming Unfair Competition Law will protect trade secrets. Also under government review is a law to provide protection for industrial designs, plant varieties, and integrated circuits, although general protection is currently provided under the Patent and Trademark Laws.

Transparency of Regulatory System

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There are few aspects of the Saudi government's regulatory system that are transparent, though Saudi investment policy is less opaque than many other areas. Saudi tax and labor laws and policies tend to favor high-tech transfers and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation

of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

Efficient Capital Markets and Portfolio Investment

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Saudi Arabia has generally free and open financial markets, although there are rules that limit where foreigners can invest in both the stock market and in terms of equity ownership. These limits are gradually relaxing. Financial policies generally facilitate the free flow of private capital and currency can be transferred in and out of Saudi Arabia without restriction.

Credit is widely available to both Saudi and foreign entities from the commercial banks and is allocated on market terms. Credit is also available from several government credit institutions, such as the Saudi Industrial Development Fund (SIDF), which allocates credit based on government-set criteria rather than market conditions. Companies must have a legal presence in Saudi Arabia in order to qualify for credit. The private sector has access to term loans, but there is no true corporate bond market. IPOs are gaining steam as the Saudi stock market evolves with new regulations and a Stock Market Commission in place. The IPO market will likely develop in a much faster pace as commercial banks and other underwriters gear up to help private Saudi firms go public under the law's streamlined registration procedures.

Currently there are 11 banks operating in Saudi Arabia, ten majority-owned Saudi banks and one GCC bank, Gulf Investment Bank (Bahrain). Three other GCC-based banks, Emirates Bank International (UAE), National Bank of Bahrain, and National Bank of Kuwait, hold licenses to operate in the Kingdom, but have not yet opened their doors. In 2003, the Saudi Arabian Monetary Agency (SAMA) granted Deutsche Bank the first foreign (non-GCC) banking license in 20 years. In 2004, HSBC, PARIBAS, and JP Morgan applied for and received banking licenses. SAMA seems receptive to new entrants, which should deepen the pool of prospective project financing. The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. Preliminary figures for 2004 indicate that assets of the banking system are expected to reach more than \$173 billion, 20 percent more than in 2003.

The Saudi Arabian Monetary Agency (SAMA), which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in Saudi Arabia. SAMA is the only central bank in the Middle East that is a member and shareholder of the Bank for International Settlements in Basel, Switzerland.

The new Capital Markets Law, passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market oversight body, the Capital Market Authority, and an independent, publicly held stock exchange, Tadawul – both established in 2004. New financial firms established under the new law will drive an increase in corporate and consumer finance activity. The IPO market will likely develop in a more progressive way as commercial banks and other underwriters gear up to help private Saudi firms go public under the law's streamlined registration procedures. Foreigners, with the exception of GCC citizens, may only invest in the stock market through mutual funds. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

The Saudi stock market registered gains for a sixth year in a row, increasing overall market capitalization to \$306.4 billion, and growing by 95 percent compared to 2003. A good portion of the oil profits in the Saudi economy found its way into the Saudi stock market, driving up the Tadawul All Share Index (TASI) by 85 percent by the end of 2004. The Saudi exchange is very thin, with only 72 companies listed as of December 31, 2004.

Political Violence

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In the wake of the 9/11 and 5/12 terrorist attacks, security has been heightened at official U.S. installations, residential compounds, and schools. Starting in November 2000, there were a series of vehicle bombings in Riyadh, which continued through 2002.

These bombings were originally suspected of being connected with the illegal alcohol trade and prostitution rings. However, bombings in 2002 are now believed to have been random acts of violence targeting Westerners and appear unrelated to alcohol or prostitution. In 2002, these bombings in Riyadh claimed the lives of a British and German national. Also in 2002 and continuing into 2003, there were a series of random shootings targeting Westerners in various parts of the Kingdom. During 2003 as part of its strategy to drive Westerners out of the Kingdom and bring down the ruling family, al-Qaeda-affiliated militants escalated their terror campaign in Saudi Arabia. The May 12th attack on three Western Compounds in Riyadh resulted in a number of deaths including 8 Americans and injuries to over 100 others. In November 2003 another Riyadh residential compound was bombed, resulting in many deaths. In April 2004, a Saudi Passport Office in central Riyadh was partially destroyed by a car bomb linked to Al-Qaeda. In early May 2004, six western expatriate workers were killed in a multiple shooting at the offices of a joint Saudi-U.S. petrochemical facility in the Western coast city of Yanbu. In late May 2004, four armed terrorists killed 22 people, mostly expatriates, in Al Khobar in the Eastern Province. On June 6, militants attacked a BBC film crew in Riyadh, killing an Irish national and wounding a British national. On June 8, American citizen Robert Jacobs was shot and killed in Riyadh. On June 12 in Riyadh, American citizen Kenneth Scroggs was killed by terrorists and Paul Johnson was kidnapped. Several days later, Johnson was murdered by members of an al-Qaeda cell.

Between August and September, al-Qaeda-affiliated terrorists shot and killed three Westerners, two in Riyadh and one in Jeddah. Terrorists also attempted to bomb an office of the Saudi-American Bank in Jeddah on September 11, and on October 1 attacked a Riyadh housing compound with gunfire and a pipe bomb. On December 6, 2004, terrorists attacked the U.S. Consulate General in Jeddah, killing 5 locally engaged Consulate employees and injuring a number of others. On December 29, 2004, car bombs were set off near the Ministry of Interior and the Emergency Forces Recruitment Center in Riyadh. Al Qaeda retains both a significant presence in the Kingdom and the ability to carry out further attacks against Westerners.

The U.S. Embassy, working closely with Saudi security officials, periodically advises American citizens of potential security concerns. Since the incident in Yanbu, the Embassy has advised U.S. citizens to leave Saudi Arabia.

Corruption

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Saudi Arabia has some, albeit limited, laws aimed at curbing corruption. For example, the agency law theoretically limits a Saudi agent's commission to five percent of the value of a contract.

Ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or government organization while employed there. There are extremely few cases of prominent citizens or government officials tried on corruption charges.

Foreign firms have identified corruption as an obstacle to investment in Saudi Arabia. Government procurement is an area often cited, as is de facto protection of businesses in which senior officials or elite individuals have a stake. Bribes, often disguised as "commissions," are reputed to be commonplace.

In June 2004, the Council of Ministers approved the Tenders Law of Saudi Arabia, which is expected to significantly improve transparency within government procurement. A June 2003 law requires the publication of select details of government contracts as well as projects listed in the government's project.

Bilateral Investment Agreements

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The Saudi Government appears to be moving forward in its pursuit of bilateral investment agreements. Saudi Arabia has bilateral agreements with France, Germany, Italy, Belgium and the Netherlands. Negotiations on bilateral agreements are likely to take place with some other Western countries. At present, however, there is no bilateral investment treaty in force between the United States and Saudi Arabia, although both sides have exchanged draft texts for review. GCC countries and their nationals receive favorable investment treatment derived from GCC agreements.

OPIC and Other Investment Insurance Programs

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The Overseas Private Investment Corporation (OPIC) no longer provides coverage in Saudi Arabia. In 1995, OPIC removed Saudi Arabia from its list of countries approved for OPIC coverage because of Saudi Arabia's failure to take steps to comply with internationally recognized labor standards. Details on OPIC programs and coverage can be obtained by calling (202) 336-8575 in Washington. The U.S. Export-Import Bank provides financing and political risk insurance in Saudi Arabia.

Labor

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The Ministry of Labor and the Ministry of Interior regulate recruitment of expatriate labor. In general, the government encourages recruitment of Muslim workers, either from Muslim countries or from countries with sizable Muslim populations. The largest groups of foreign workers now come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen.

Westerners compose less than two percent of the labor force, and the percentage is dropping as Saudis and less-expensive expatriates from developing countries replace them.

Since September 1994, the Ministry of Labor has been required to certify that there are no qualified Saudis for a particular job before an expatriate worker can fill that job. In addition, the Ministry of Interior must approve all transfers of expatriate workers from one firm to another. On the other hand, group visas are normally available for unskilled and some skilled workers recruited abroad.

Saudi labor law forbids union activity, strikes, and collective bargaining. Recently the Government announced that it would allow companies that employ more than 100 Saudis to form "labor committees". By-laws detailing the functions of the committees were enacted in April 2002. Two years later, no labor committees have been established. There is no forced or compulsory labor but domestic workers are not covered under the current labor law provisions. Overtime is compensated normally at time-and-a-half rates. The minimum age for employment is 14. The Saudi government does not adhere to the International Labor Organization's (ILO) convention protecting workers' rights, but is taking steps to enhance its cooperation with ILO in a number of areas. A July 2004 decree addresses some workers' rights issues for non-Saudis, and the Ministry of Labor has begun taking employers to the Board of Grievances.

Foreign-Trade Zones/Free Ports

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Saudi Arabia does not have duty-free import zones or free ports. It has begun to permit transshipment of goods through its ports in Jeddah and Dammam. Saudi Arabia is a member of the Gulf Cooperation Council (GCC), which confers special trade and investment privileges within the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE). Saudi Arabia is also a member of the Arab League, which has recently agreed to negotiate an Arab free trade zone.

Foreign Direct Investment Statistics

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Accurate, up-to-date data on foreign direct investment in Saudi Arabia is difficult to obtain. Problems include double counting in domestic/foreign joint ventures, historical versus current market valuations, domestic financing by foreign firms, difficult-to-tabulate profit reinvestments by foreign firms, and the relatively small, off-the-books investments by Asian entrepreneurs and others, often disguised under a Saudi sponsor.

Saudi Arabia's net foreign investment inflows on a relative basis have lagged behind those of many other developing nations. A substantial increase in FDI inflows would help attract overseas private Saudi capital back to the country. Foreign investment also boosts organizational, managerial and technological competence. The degree to which Saudi Arabia can attract outside capital will greatly affect employment and wage levels.

Figures provided in this section are taken from United Nations Conference on Trade and Development's (UNCTAD) "World Investment Report 2004." Following are key

FDI indicators as provided by the referenced report (all figures are in USD millions unless otherwise indicated):

	<u>2001</u>	<u>2002</u>	<u>2003</u>
FDI inflow	20	-615	208
FDI outflow	-44	50	54
FDI inward stock	25,983	25,368	25,576
FDI outward stock	1,741	2,126	unavailable
FDI inflow as % of GFCF	0.1	-1.9	0.6
FDI outflow as % of GFCF	-0.1	0.2	0.2

GFCF = Gross Fixed Capital Formation

	<u>2001</u>	<u>2002</u>	<u>2003</u>
FDI inward stock as % of GDP	13.9	13.5	12.1
FDI outward stock as % of GDP	1.1	1.1	1.0

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- [How Does the Banking System Operate](#)
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- [U.S. Banks and Local Correspondent Banks](#)
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How Do I Get Paid (Methods of Payment)

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An irrevocable letter of credit (L/C) is the instrument normally used for Saudi imports. Open account, cash in advance and documentary collections are also acceptable if both parties agree. Maximum or minimum credit terms are not required. Export Credit Insurance for political and commercial risk is available from the [Foreign Credit Insurance Association](#) (FCIA) of the U.S. Export-Import Bank in Washington, D.C. (Tel: 202-566-8990 or 212-306-5084)

Through an initiative of the local banks, the [Saudi Credit Bureau](#) (SIMAH) is Saudi Arabia's first comprehensive consumer credit bureau. Established in 2003, SCB will only extend its services to members in the banking industry. The current laws of Saudi Arabia do not allow sharing of financial information with non-banking institutions.

Debt collection is usually undertaken by a number of [law offices](#). There are a number of debt collection companies that are available through the U.S. Commercial Service.

How Does the Banking System Operate

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The Saudi banking system remains strong and profitable. All banks posted higher profits during the first three quarters of 2004. In late 2003, the Saudi American Bank, a managed affiliate of Citigroup (Citigroup owned 20 percent of the bank and managed it under a technical management agreement) became locally managed and changed its name to become Samba Financial Group. In 2004, Citigroup sold its 20 percent share to the Saudi government-owned Public Investment Fund (PIF). A major development that could take place in 2005 will be the floatation of the National Commercial bank. Excluding results from Al-Jazira Bank, net income of the Saudi banks went up by an impressive 86.8 percent during the first three quarters of 2004 compared to the same period in 2003, from \$1.76 billion to \$3.3 billion- almost the same level as at year-end 2003. The most impressive was Samba Financial Group with an outstanding 83 percent growth in profits.

As of September 30, 2004, total assets of Saudi banks, excluding Al-Jazira Bank, stood at more than \$155.5 billion, 12.5 percent more than during the same period in 2003.

Bahrain-based Gulf International Bank, which maintains a branch office in Saudi Arabia, reported \$106.9 million in profits and \$18.26 billion in total assets.

Consumer banking is a major area of focus and Saudi banks have showed more vigor in servicing retail lending. Ample liquidity in the market has allowed banks to support the retail expansion without disregarding the corporate market. This growing shift to retail lending has provided Saudi banks with comparatively higher margins and lower risk factors. The extension of consumer credit was also directly enhanced by the developments in electronic banking, which facilitated direct-deposit of salaries and thus collections. For the first nine months of 2004, aggregate consumer borrowing increased more than 32 percent, from \$54.4 billion to \$71.5 billion.

The Saudi Government endorsed the Capital Market Law on June 16, 2003. The legislation will provide a legal and regulatory framework for a formal stock trading operation and bolster capital market formation. A Stock Market Commission will organize the market until a Stock Market Board of Directors takes over.

The Saudi stock market registered gains for a sixth year in a row, increasing overall market capitalization by 95 percent to \$306.4 billion in 2004. A good portion of the oil profits in the Saudi economy found its way into the Saudi stock market, driving up the Tadawul All Share Index (TASI) by 85 percent, reaching 8,206.23 the last trading day in 2004. The Saudi exchange is very thin, with only 72 companies listed as of December 31, 2004.

Six companies accounted for almost 55 percent of total market capitalization including Saudi Telecommunications Company, SABIC, Ettihad Itisalat, Saudi Electricity Company, National Commercial bank, and Al-Rajhi Banking & Investment Corporation. Greater privatization in the Saudi economy, including the creation of partial savings accounts in the country's two major pension systems, would greatly boost stock exchange capitalization, and make it a more important engine for economic growth.

The last IPO in 2004 was the 25 percent sell off by the National Company for Cooperative Insurance (NCCI). A number of IPOs are planned in 2005 including a partial sell-off of the National Commercial Bank shares, the newly launched Al-Bilad Bank. Other IPOs that may occur in 2005 include Marafiq and Al-Marai.

The Saudi Government has already indicated its future plans to privatize the national airline, Saudi Airlines, and to grant a third license for a GSM mobile operator.

Press speculation that large flows of capital are being repatriated to Saudi Arabia following September 11 is not supported by financial data. Changes in bank deposits and the domestic money supply do not reflect large capital inflows.

The [Saudi Arabian Monetary Agency](#) (SAMA), the Saudi central bank, regulates the Saudi banking sector. Offshore banking and trust operations do not exist in Saudi Arabia, and there is no legislation to permit the establishment of these operations.

SABIC, the Saudi petrochemical company, plans to raise \$267 million in corporate bonds to help finance its global expansion. If it materializes, the issue, which is expected to take place in 2005, will be Saudi Arabia's first major domestic corporate bond. The company is also keen on getting a credit rating to be able to borrow on international markets.

Foreign-Exchange Controls

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Saudi Arabia imposes no foreign exchange restrictions on capital receipts or payments by residents or nonresidents, beyond a prohibition against transactions with Israel. Although officially linked to the IMF's Special Drawing Rights, Saudi Arabia in practice pegs its currency, the Saudi Riyal, to the U.S. Dollar.

Saudi Arabia last devalued the Riyal in June 1986 when it set the official selling rate at SR 3.745 = \$1. The Saudi Arabian Monetary Agency (SAMA) and all residents may freely and without license buy, hold, sell, import, and export gold, with the exception of gold of 14 karats or less. The Saudi government is considering a law to regulate the transportation of money, precious metals, and valuable documents in excess of \$133 thousand.

U.S. Banks and Local Correspondent Banks

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There are no U.S. financial/lending institutions operating independently in Saudi Arabia. Nonetheless, the Saudi Arabian Monetary Agency (SAMA) granted a license to JP Morgan to operate in Saudi Arabia as a foreign entity.

Currently, 11 majority Saudi-owned banks and five GCC banks are licensed to operate in Saudi Arabia, though only one of the five GCC banks, Bahrain-based Gulf International Bank has opened. In 2003, the Saudi Arabian Monetary Agency (SAMA) granted four licenses to foreign (non-GCC) banks, namely, Deutsche Bank, HSBC, BNP-Paribas, and JP Morgan.

Because of its ownership structure, [Saudi Investment Bank](#) (Chase Manhattan) has direct correspondent relationships with its U.S. joint venture partner. Other Saudi banks also have correspondent relationships with U.S. institutions, whether the home office in the United States or through the U.S. bank branches in Europe, Bahrain, or Dubai.

Project Financing

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Saudi policies facilitate the free flow of financial resources. Credit from the commercial banks is allocated on market terms, and foreign investors can obtain credit on the local market. The private sector has access to a variety of credit instruments.

"Soft" term financing is available from specialized credit institutions: the [Saudi Agricultural Bank](#), the [Saudi Credit Bank](#), the [Public Investment Fund](#), the [Saudi Industrial Development Fund](#) (SIDF), and the [Real Estate Development Fund](#).

The Saudi banking system is well capitalized and well provisioned. SIDF loans are available to finance foreign-owned businesses in Saudi Arabia under the Foreign Investment Law. The Embassy is not aware of any "cross-shareholding" or "stable shareholder" arrangements being used by private firms to restrict foreign investment through mergers and acquisitions. Nor is the Embassy aware of any laws or regulations that specifically authorize private firms to adopt articles of incorporation/association, which limit or prohibit foreign investment, participation, or control.

GSM credit guarantees are not available in Saudi Arabia. The U.S. Export-Import Bank is involved in Saudi Arabia supporting trade with private Saudi companies. OPIC does not provide coverage in Saudi Arabia. The Government of Saudi Arabia may use the facilities of International Financial Institutions to support major infrastructure projects.

Project financing is available in Saudi Arabia for longer-term loans by the local commercial banks and Saudi specialized credit institutions such as the Saudi Industrial Development Fund or the Public Investment Fund. The Saudi Government does not receive project financing from multilateral institutions such as the World Bank. The U.S. Export-Import Bank has not, so far, engaged in any project finance activities in Saudi Arabia.

The [Islamic Development Bank](#) fosters the economic development and social progress of member countries and Muslim communities. It participates in equity capital and grants loans for productive projects and enterprises, besides providing financial assistance to member countries in other forms for economic and social development.

The International Finance Corporation (IFC), the private sector lending arm of the World Bank Group, is participating in a Saudi Government project, the [Saudi Orix Leasing Corporation](#) (SOLC), which will help finance short and medium-sized projects by making asset-backed financing more accessible. SOLC is the IFC's first joint venture in Saudi Arabia.

In addition, the [Council of Saudi Chambers of Commerce and Industry](#) is assisting with the set up of a Saudi - Japanese company to finance small and medium-sized companies in Saudi Arabia.

Recently, the [Saudi Fund for Development](#) began to offer financing for Saudi exports to countries where there is no commercial bank coverage, no correspondent banks and/or high-risk country/bank.

The [Islamic Corporation for the Insurance of Investment and Export Credit](#) (ICIEC) provides Export Credit guarantees on exports to member states and to companies owned/partly owned by member states. In addition, the corporation provides investment insurance and guarantees against country risks to member states.

Other regional organizations that also provide for project and trade financing to promote investments and social development in the Arab world include:

- [Arab Fund for Economic and Social Development](#), which is an autonomous regional Pan-Arab development finance organization. Members include all Arab states in the League of Arab Nations.
- [Arab Industrial Development and Mining Organization](#), which is also a Pan-Arab organization for the encouragement of industrial and mining investments.
- [Arab Monetary Fund](#), a 21-member regional Arab organization aiming to improve the balance of payments of member states, to promote Arab monetary cooperation as well as trade among member states. The organization also advises member countries on policies with respect to their foreign investments.
- [Inter-Arab Investment Guarantee Corporation](#), which aims to promote and facilitate inter-Arab investments and trade.

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccs/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

[Saudi Credit Bureau](#)

[Saudi Arabian Monetary Agency](#)

[Saudi Investment Bank](#)

[Saudi Credit Bank](#)

[Saudi Agricultural Bank](#)

[Public Investment Fund](#)

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Business Customs

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Modern Saudi Arabia has adopted many of the business methods and styles of the West, but differences remain. Most important is that business will generally only be conducted after a degree of trust and familiarity has been established. Considerable time may be spent exchanging courtesies, and several visits may be needed to establish a business relationship. Business visitors should arrange their itineraries to allow for long meetings, as traditional Saudis often maintain an "open office" in which they will sign papers, take telephone calls, and converse with friends or colleagues who drop by. Tea and traditional Saudi coffee are usually offered. One to three cups of Saudi coffee should be taken for politeness, after which the cup should be wiggled between thumb and forefinger when returning it to the server to indicate that you have finished.

Many Saudi businessmen have been educated or have traveled extensively in the West and are sophisticated in dealing with Americans. For the most part travelers can rely on the usual Western manners and standards of politeness to see them through, with a few additional rules that may be observed. One should avoid sitting at any time with the sole of the foot pointed at the host or other guest. Unless one is on familiar terms with a Saudi, it may be discourteous to ask about a man's wife or daughters; ask instead about his family. Shoes are often removed before entering a Saudi Majlis (living room). If you are invited to the home of a Saudi for a party or reception, a meal is normally served at the end of the evening, and guests will not linger long after finishing. Customs and manners differ, so be observant and adapt your behavior to that of your host.

Dress is conservative for both men and women. Men should not wear shorts or tank tops, while women are advised to wear loose-fitting and concealing clothing with long skirts, elbow-length sleeves, and modest necklines.

There is strict gender separation in the Kingdom and restaurants maintain separate sections for single men and families. Wives are often excluded from social gatherings or are entertained separately.

Travel Advisory

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The U.S. Embassy continues to receive reports that suggest terrorist action against U.S. interests in Saudi Arabia remains a possibility. Because of continuing security concerns, the U.S. Embassy, Consulates General, and the U.S. military elements throughout the country routinely review their security postures and make improvements wherever possible to lessen their vulnerabilities. The Embassy strongly encourages all Americans resident in Saudi Arabia to likewise take appropriate steps to increase their security awareness and lessen their vulnerability.

In addition, the State Department issues [Consular Information Sheets](#) for every country of the world with information on such matters as the health conditions, crime, unusual currency or entry requirements, any areas of instability, and the location of the nearest U.S. embassy or Consulate in the subject country.

Americans traveling to Saudi Arabia for a short period of time are encouraged to register with the U.S. Embassy or Consulates and to obtain the most current security information. This process can be done before departing the U.S. through the [Internet Based Registration System](#) (IBRS).

Americans who expect to spend more time visiting Saudi Arabia or who are resident in Saudi Arabia are encouraged to register through the IBRS and to subscribe to the American Embassy warden system to receive the latest [Warden Messages](#) and [Travel Warnings](#). The Warden system will inform the resident American community of current security matters.

Visa Requirements

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Saudi visas in passports valid for at least six months are required for entry. Visas can be obtained for business and work, to visit close relatives, for religious visits, and lately for tourism. Most visas are single entry and allow for a maximum six-month stay. Following 9/11, Saudi authorities reciprocated by halting the issuance of a two-year, multiple-entry business visa to U.S. citizens. Visas are not available upon arrival at ports of entry.

To obtain a visitor's visa for business purposes, each U.S. company representative must have a letter of invitation from the sponsor in Saudi Arabia. This letter must be in Arabic, the U.S. applicant must have the original copy (no faxes allowed), the letter must be on sponsoring company letterhead, and must bear an authenticating stamp of the local Saudi Chamber of Commerce. Saudi missions will no longer issue a two-year multiple entry visas. If the U.S. applicant does not have a Saudi sponsor, the U.S.-Saudi Business Council may be able to assist (Tel: 202-638-1212). U.S. Commercial Service offices also can advise on how to make initial contacts with potential sponsors. The [U.S. Embassy](#) and Consulates General cannot sponsor private American citizens for Saudi visas.

The letter should name the visa applicant, passport number, company name and address, approximate dates of visit, and reason for visit (e.g. business

meetings). The U.S. visa applicant may hold the letter for up to 60 days prior to making application. It is recommended that the U.S. applicant's company use the company's letterhead when requesting the Saudi Embassy's/Consulates' cooperation in issuing the visa. The visa applicant must apply for and receive the visa prior to departing the United States at either the Saudi Embassy in Washington or at Saudi Consulates in Houston, Los Angeles, or New York City. Once the visa is stamped on the passport, it must be used or officially canceled before a subsequent visa will be issued. The visa may be extended at the discretion of the Saudi Embassy or Consulate prior to the expiration date.

Occasionally, the Saudi consular officer may require the applicant to obtain the visa through a more time-consuming process involving approval by the Saudi Ministry of Foreign Affairs. Women traveling alone, Americans of Arab origin, and private consultants are often required to use this process. Resident visas also are available through a separate process.

Visitors to Saudi Arabia generally obtain a meningitis vaccination prior to arrival, especially during the annual pilgrimage rituals. A medical report, including an AIDS test, is required to obtain a work and residence permit. This includes a medical certification. For further information on entry requirements, travelers may contact the [Royal Embassy of Saudi Arabia](#) in Washington, DC, or one of the Consulates in New York, Houston, or Los Angeles.

There is an airport departure fee of Sr. 50 (\$13.30) per traveler. Members of airline crews, infants (under the age of 2), and passengers in transit less than 24 hours are exempt from paying this fee. The fee is payable to the travel agent through which the ticket is booked.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>
United States Visas.gov: <http://www.unitedstatesvisas.gov/>
American Embassy in Riyadh: [U.S. Embassy](#)
Saudi Embassy in Washington, D.C.: [Royal Embassy of Saudi Arabia](#)

Telecommunications

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Telecommunication services in Saudi Arabia remain one of the most active sectors in Saudi Arabia. Since its privatization in 1998, [Saudi Telecommunications Company](#) (STC) has been carrying out major telecommunications projects kingdom-wide, gradually taking over this role from the Ministry of Post, Telephone and Telegraph (PTT).

Facsimile machines are heavily utilized in the conduct of business. A cellular phone system based on the GSM standard is highly popular, while radiophones are restricted. Internet service is now available through some two-dozen service providers. STC has ambitious plans to expand and upgrade its telecommunications services based on the latest broadband technologies. These services include fast

Internet services and digital subscriber lines (DSL). Broadband technologies are characterized by high speed and bandwidth high capacity.

The [Communications and Information Technology Commission](#) has recently awarded the second public mobile license to United Telecom Group, Ettesalat (UAE consortium) that includes five Saudi partners. A third GSM license will be issued to a new operator by the end of 2005. Furthermore, CITC will soon issue licenses to two qualified firms to provide data services.

The latest figures reveal that Saudi Arabia has more than 12 million landlines, close to eight million mobile GSM lines, four VSAT providers, 22 ISPs, and more than two million Internet users.

The Kingdom has direct dial access to more than 152 countries. There are various prepaid phone cards and prepaid Internet cards for temporary visitors to Saudi Arabia. Major hotels have either in-room Internet access or in-house access.

Transportation

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The business centers of Riyadh, Jeddah, and Dammam/Al-Khobar/Dhahran have international airports served by a variety of international airlines. Air travel is preferred for domestic travel with public service restricted to the sole national airline, [Saudi Arabian Airlines](#).

Saudi Arabia has a good highway system and rental cars and taxis/limousines are available at all airports; driving is U.S.-style, on the right. One rail line carries passengers and freight between Dammam and Riyadh. Jeddah and Dammam are the main international seaports for moving containerized and bulk cargo, while Jeddah seaport has a passenger terminal as well.

Regarding transportation, four-door sedans rent monthly for approximately \$960, and yearly for about \$11,500. A new GMC Suburban can be purchased for approximately \$30,373.

Language

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The official language of Saudi Arabia is Arabic, but English is widely used in business and some signs and notices. Most road signs are in Arabic, while major highways and streets display road signs in both Arabic and English.

Health

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The quality of health care is variable, ranging from excellent to poor depending on the region, hospital, and specialty. Most Western expatriates find it adequate for routine care and minor surgery. In recent years, however, medical care has evolved in Saudi Arabia with all sorts of sophisticated treatments, such as open-heart surgery, kidney transplants and cancer treatment, being undertaken. Only a few drugs available in the U.S. are not available in Saudi Arabia.

The latest [World Health Organization](#) data reveal that Saudi Arabia's per capita health expenditures stood at \$375 in 2001. A yellow fever certificate is required from travelers coming from infected countries. A Meningitis vaccine is also required from incoming travelers, especially during the annual Pilgrimage ritual.

There is a Malaria risk throughout the year in most of the Southern Region and in certain rural areas of the Western Region, except for Mecca and Medina.

Local Time, Business Hours, and Holidays

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Saudi Arabia's time zone is GMT+03:00. Saudi Arabia is a Muslim country that requires strict adherence to Islamic principles. Five times a day Muslims are obliged to pray in the direction of the holy city, Mecca. The prayer times are published in the newspaper and come at dawn, noon, afternoon, sunset, and evening. Stores and restaurants close for approximately one-half hour at these times. When staging promotional events or product demonstrations, one must anticipate these prayer breaks.

Business hours vary in different parts of the country. Saudi companies usually close for two hours in the afternoon and remain open throughout the early evening. Retail stores close for the noon prayer and reopen around 4:00 P.M.

The normal workweek runs from Saturday through Wednesday, with many companies also requiring a half or full day on Thursday. Friday is the Muslim holiday.

Work Week: a. U.S. Embassy:	08:00 - 17:00 Sat. thru Wed.
b. Government:	08:00 - 14:30 Sat. thru Wed.
c. Banks:	09:00 - 12:00 and 17:00 - 19:00 Sat. thru Wed.
d. Businesses:	08:00 - 12:00 and 16:00 - 20:00 Sat. thru Wed. 08:00 - 13:00 Thursdays.

There are two Islamic religious holidays during which most businesses close for at least three working days and all Government offices close for a longer period. During these holidays, it is very difficult to make contacts or transact business.

The Eid al-Fitr holiday occurs at the end of the holy month of Ramadan (month of fasting). Eid al-Adha celebrates the time of year when pilgrims arrive from around the world to perform the Hajj. Their timing is governed by the Islamic lunar calendar. The next Eid al-Fitr holiday will begin on or about November 1, 2005 and the next Eid al-Adha holiday on or about January 10, 2006.

Business travel to Saudi Arabia during the holy month of Ramadan is best avoided. During Ramadan, Muslims abstain from food and drink during daylight hours. Office hours are shortened and shifted to the evening, and people may be affected by the fasting and customary late night social gatherings. During Ramadan business travelers should not drink, eat, or smoke in public during daylight or in the presence of fasting Muslims. Hotels

offer special daytime food services for their non-Muslim guests. Ramadan will start on or about October 4, 2005 and end on or about November 1, 2005.

The Saudi national day is celebrated September 23. In 2005, all government offices and some businesses will close, contrary to previous years.

Temporary Entry of Materials and Personal Belongings

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Temporary entry of goods is allowed provided that a guarantee of a percentage of the value of the goods equivalent to the normal tariff is deposited with Saudi Customs. A document and/or a participation agreement is needed to ascertain that the owner of the goods is officially participating in a trade show. If the goods are meant for demonstration purposes to a Government entity, a letter from that entity is required indicating the nature and purpose of the goods. The deposit will be reimbursed after Saudi Customs attests that the goods have left the Kingdom.

Reimbursement should take somewhere between two to four weeks. An invoice stating the value of the goods and endorsed by the U.S.-Saudi Business Council should be presented at port of entry.

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[Travel Advisories and Warnings](#)
[Royal Embassy of Saudi Arabia](#)
<http://www.unitedstatesvisas.gov/>
[Communications and Information Technology Commission](#)
[Saudi Arabian Airlines](#)

[U.S. Embassy](#)
[State Dept. Visa Website](#)
[Saudi Telecommunications Company](#)
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Contacts

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[Ministry of Agriculture](#)

[Ministry of Economy & Planning](#)

[Ministry of Petroleum and Mineral Resources](#)

[Ministry of Communications and Information Technology](#)

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[Ministry of Finance](#)

[Ministry of Interior](#)

[Council of Saudi Chambers of Commerce and Industry](#)

[Riyadh Chamber of Commerce and Industry](#)

[Jeddah Chamber of Commerce and Industry](#)

[U.S. – Saudi Business Council](#)

[Arab Satellite Communications Organization](#)

[Capital Market Authority](#)

[Central Department of Statistics](#)

[Deputy Ministry for Mineral Resources](#)

[Communication and Information Technology Commission](#)

[Department of Zakat and Income Tax](#)

[General Organization for Social Insurance](#)

[General Organization for Technical Education and Vocational Training](#)

[Institute of Public Administration](#)

[King Faisal Foundation](#)

[King Abdul Aziz City for Science and Technology](#)

[Presidency of Meteorology and Environment \(PME\)](#)

[National Commission for Wildlife Conservation and Development](#)

[National Shipping Company of Saudi Arabia](#)

[Civil Aviation Commission \(CAC\)](#)

[Public Investment Fund \(PIF\)](#)

[Royal Commission for Jubail and Yanbu](#)

[Saline Water Conversion Corporation \(SWCC\)](#)

[Saudi Arabian Agricultural Bank](#)

[Saudi Arabian Airlines](#)

[Saudi Customs](#)

[Saudi Arabian General Investment Authority](#)

[Saudi Arabian Mining Company \(MA'ADEN\)](#)

[Saudi Arabian Monetary Agency](#)

[Saudi Arabian Oil Company \(Saudi Aramco\)](#)

[Saudi Arabian Public Transport Company](#)

[Saudi Arabian Standards Organization \(SASO\)](#)

[Saudi Credit Bank](#)

[Saudi Basic Industries Corporation \(SABIC\)](#)

[Saudi Electricity Company](#)

[Saudi Fund for Development](#)

[Saudi Geological Survey](#)

[Saudi Industrial Development Fund \(SIDF\)](#)

[Saudi Ports Authority](#)

[Saudi Telecommunications Company](#)

[Supreme Economic Council](#)

[U.S. Commercial Service in Saudi Arabia](#)

[Saudi Press Agency](#)

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

To view market research reports produced by Foreign Agricultural Service, please go to the following website: [FAS Attaché Reports](#) and search either by date, commodity and/or country.

Trade Events

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

The Commercial Service in Saudi Arabia will be promoting the following [Trade Events](#).

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services available to U.S. companies and offered at the U.S. Commercial Service in Saudi Arabia, please click on the link below.

<http://www.buyusa.gov/saudiarabia/en/7.html>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.